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FROM

The Author.....

The STANDARD PRICE OF COTTON



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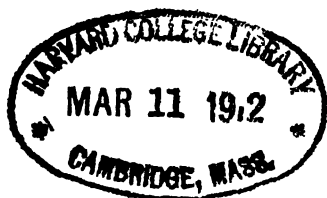
"We know the truth when we see it, let skeptic and scoffer say what they choose. Foolish people ask you when you have spoken what they do not wish to hear, 'How do you know it is truth, and not an error of your own?' We know truth when we see it, from opinion, as we know when we are awake that we are awake."

—EMERSON, "THE OVERSOUL"

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The Author

TABLE OF CONTENTS.

CHAPTER I.	PAGE.
The Gold Standard.....	5
CHAPTER II.	
The Standard Price of Capital.....	30
CHAPTER III.	
The Origin of Capital.....	42
CHAPTER IV.	
The Distribution of Capital.....	51
CHAPTER V.	
The Failure of Reproduction.....	69
CHAPTER VI.	
The Finance System.....	81
CHAPTER VII.	
The Failure of Finance.....	91
CHAPTER VIII.	
Remedies	102

The Standard Price of Cotton.

CHAPTER I.

THE GOLD STANDARD.

The reported discovery of new gold fields and the rush of an adventurous people to gain new fortune, with the excitement and adventure that follow, is perhaps the most interesting news in the daily history of the civilized world.

Why should news from gold fields be more exciting and more interesting than similar news from cotton fields, or from new manufacturing territory? Gold must be extracted from the soil and rocks by the most arduous human labor; much money is wasted and few succeed; but in new gold fields each one has an equal chance at the hazard of new fortune, which chance does not obtain in cotton or in manufacturing.

Gold is said to be an exception in nature, and for this reason has been called the natural money metal, and it has been given a standard price above cost by law, which is denied to all other products.

The price of gold does not fluctuate on account of the increase in the supply, because each ounce of the new supply may be coined into twenty dollars, which buys the gold.

The more gold produced, the more money is produced; each exactly balances the other at a standard price fixed by a law which allows the owner of gold to coin it into money at twenty dollars an ounce.

Gold economists need to be asked about the law of supply and demand, which they assert is the cause of price and which the human law cannot change.

If gold is able to buy itself at a fixed standard price with the money it produces, why may not cotton be given a similar standard price and buy itself with the money the value of cotton creates?

Supply and demand would operate with equal force if cotton had a standard price, and because prices do or do not fluctuate is no evidence in favor of or against supply and demand.

Supply and demand is not the cause of price, *but is price itself*; when supply and demand operate at all, a price appears, and to say that supply and demand controls price is to argue in a circle and say that price controls price.

The cause of price must be the cause of the difference between different prices for the same commodity, and must be the cause of different prices for different commodities, and it is self-evident that supply and demand is not the cause of differences in prices, but is price itself.

The coinage law which creates money from gold at a standard price does not change the fact that gold is produced from the soil like cotton, and although gold has

a fixed standard price, such price does not alter the risks or hazards of new production from new gold fields.

The standard price for gold may only fix a limit to the number of paying mines, and leaves untouched vast oceans of gold that cannot be produced because the cost exceeds the standard price.

Human law may establish a standard price for gold and make it profitable to mine gold in particular fields, but the human law cannot override the natural law, which equally fixes standard prices for all commodities and equally limits the fields to be worked.

If coinage laws were repealed, gold would continue to have a standard price which might be higher than the price now fixed by coinage laws, but which price would then fluctuate for the same reason that other prices now fluctuate.

When the price of cotton falls from a fourteen-cent level to a nine-cent level, the producer wants to know why he is selected to bear so heavy a burden and suffer alone such enormous loss.

If gold can be maintained by law at a profitable standard price by selling for the money it creates, may not cotton be given a profitable standard price, and sell equally for the money cotton itself creates?

In gold fields the cost of production limits the supply to the standard price, the same as any other price limits the supply, but the difference between cotton and gold is that the price of cotton may fall to absolute cost in favor-

able fields, while gold cannot fall below its highest cost of production. Gold does not depend upon coinage laws for a standard price, but depends upon coinage to prevent changes in its standard price. Commerce accommodates itself to this standard, and serious disaster would result if the price of gold was permitted to communicate its fluctuations in price to the value of money. If a standard price for cotton is fixed by natural law, and if human interference with natural law causes the low price of cotton, may it not be true that stability in commerce demands a stable price for cotton, and fluctuations in the price of cotton are also communicated to the value of money?

When the price of cotton falls to the cost of production, it does not do so because cotton is less valuable or less able to sustain more money in circulation, but the price falls because the outside market fails to supply the volume of money a higher price demands.

When the price of cotton falls below a profitable standard, it is falsely assumed that the public gets the benefit of the lower price, but the truth is apparent that a fall in price is immediately followed by planting less acres of cotton in order to restore the necessary price by giving the consumer less cotton.

The continued restriction of the fields of production which follows declines in prices below a profitable standard, demonstrates that nature seeks to maintain a standard price at all hazard, although the people may starve from a failure of the supply on this account.

This truth is conclusively demonstrated by the history of every extinct civilization, where poverty and idleness increased while fertile lands were abandoned; where cities became vacant ruins without tenants, and people lived in caves, and where commerce declined and money refused to circulate, although golden ornaments and golden coins were in great abundance among the few rich.

Distribution depends upon the price of goods above cost, and commerce fails and all progress is at an end when the standard price falls to cost and destroys the profit of industry.

With cotton selling at fourteen cents a pound in 1910 and fifteen cents in 1909, the years of profitable prices had extended the area of cultivation and extended the use of fertilizer in an effort to supply the world with more cotton. The encouragement of a profitable price resulted in an exceptional yield of fifteen million bales in the favorable season of 1911, but this greater yield was not offset by a lower cost of supply, as is usually the case.

Had fire, flood and earthquake visited a similar loss upon the population of the cotton territory, the sympathy of the entire world would have been aroused.

But a low price of cotton is looked upon as a blessing to the consumer of fabrics, and the South is supposed to forcibly contribute this loss for the general welfare.

The theory that a price of cotton below a profitable standard is a blessing to the consumer is without the shadow of a fact to sustain it, but, on the contrary, such

a loss to the South visits an equal loss upon other markets by the failure to consume other products on account of the low price of cotton.

The total consuming power is fixed, not by cost of production, but by a standard price high enough above cost, so that the surplus from one class of laborers may sell for enough money to buy the surplus from other classes of labor.

The fall in the price of cotton in 1911, from the fourteen-cent level of 1910 to a nine-cent level per pound, is a total loss of power to exchange a surplus of cotton for other goods, by destroying the power of the South to buy the other goods.

It may be asserted that cotton could not be valorized and maintain a uniform price of fourteen or fifteen cents a pound on a gold basis, for the reason that successive inflations of currency from coining each crop into money would soon destroy the integrity of the financial system.

Marketing annual crops requires an annual inflation of credit, on account of the well-known demands upon credit for crop-moving purposes, and if this inflation of credit may come newly into existence with each crop at a standard price and be cancelled each year as the crop reaches the consumer, there can be no objection to securing a standard price for cotton at fifteen cents a pound if cotton itself coins the money for its own standard price and cancels the money when the crop reaches the consumer.

PRICES AND VALUES.

Writers upon the subject of prices and values have taken for granted, and accepted without question, the theory that value is intrinsic and is a part and quality of the commodity itself.

There is absolutely no truth in the theory of intrinsic value; there are no facts of any kind to support the absurd intrinsic proposition, and the truth is unquestionable that the value of anything is expressed by the money it will sell for. Because a product must be useful in order to become valuable the usefulness and the value of it have been confused, the writers forgetting that air, for example, may be infinitely useful, but without value, and that usefulness and valuableness are not identical. Value in commerce has a meaning which the simplest intelligence need not mistake, a meaning familiar to any child who spends money for any object it may desire.

There is but one correct theory of prices and but one correct explanation of them, and this correct explanation must be selected from a number of theories, which are partially correct, or which are wholly false.

Two theories of prices may each be false and may differ radically from each other, and thereby provoke endless discussion, because each may prove the other wrong, while neither may advance the truth in a single particular.

A STANDARD PRICE.

It is generally admitted that every commodity offered for sale in the retail market is sold at a standard price above cost for the reason that the lowest cost under the most favorable conditions would prevent all production and employment where conditions were less favorable.

There is a variety of costs for different units of the same supply offered for sale, and a standard price must arise so that identical parts of the same thing will sell at the same price.

If cost governed prices, the market would become irregular and impossible; the first buyer would get the advantage of the lowest cost and each succeeding buyer would pay a higher price for the same supply, and no margin of profit could arise.

The writers who hold to the intrinsic theory of value claim that the level market price, above the various differences in cost, arises from the most costly installment of the supply, fixing the price for the total supply, which price allows a profit to arise on account of the intrinsic value of the product. Ricardo based his law of rent upon this fallacy, and claimed that the pressure from an increasing population forced poorer lands into use at greater costs of cultivation, and the standard price was determined by the cost of the supply from the poorest lands where the cheapest labor was employed, thus basing a high price upon the lowest possible wage for labor.

This economic superstition has had a powerful influence

in directing the literature of politics, and while it did not deserve a moment's serious consideration from intelligent men, it became the sink of iniquity in political economy by providing an excuse for every form of abominable oppression and poverty.

The standard price is derived from the forces distributing wealth, and does not arise from the forces of production, and since it is admitted that every commodity must necessarily acquire a standard price, the inquiry narrows down to the question of whether the standard is determined by natural law, so as to keep all commodities in equal relation to each other, or whether price is a haphazard condition of every chance market.

SURPLUS COTTON.

The world needs to know why a cotton crop of twelve million bales in 1910 sold for fourteen cents a pound and the fifteen million bale crop of 1911 may sell for only nine cents a pound. The selling price of cotton above cost represents the sum of money the cotton producer may spend as surplus, in buying surplus products from other fields.

The average cost of cotton may be safely estimated at eight cents a pound, and the surplus will be fixed by the sum remaining after the cost has been deducted from the selling price.

Thus the crop of twelve million bales, for example, at fourteen cents a pound, cost eight cents, leaving six cents

a pound or six-fourteenths of twelve million bales surplus, a surplus of about five million bales.

In 1910 the South gained in wealth by selling more than five million bales of surplus cotton at fourteen cents, or selling twelve million bales at six cents a pound profit, a total gain of three hundred and sixty million dollars.

On the other hand, the greater crop of 1911, consisting of fifteen million bales, sold at a price which cut the surplus cotton to less than two million bales, and the South gained but one and two-third million bales at nine cents a pound, or seventy-five million dollars in 1911, as against a surplus of more than five million bales at fourteen cents a pound out of a twelve-million-bale crop in 1910, or three hundred and sixty million dollars.

This gain is only apparent because, when the selling price of cotton fails to rise to its natural standard price, the entire fall below the standard is a loss that will be equalized by an increase of debts.

Thus, for example, if half the total labor in the South is engaged in producing cotton, and the other half of labor is building railroads, towns and cities and is employed as school teachers, government servants and at other work, then the selling price of cotton must be double the cost, to pay all this labor.

The reason why the standard price is exactly double the cost is to keep each commodity in equal relation by doubling the cost of each in the volume of money but to allow each product to attract its own proportion of the total demand.

The South did not gain as much as it spent, when cotton sold at fourteen cents; if cotton cost eight cents, it should have had a standard price of sixteen cents.

But what of competition if nature is to thus establish a standard price for every commodity? Is the claim made that nature abolishes competition when a standard price is established? Not at all; the standard price is secured by competition; but competition may be constructive or destructive—constructive when it is lifting prices to the level of the standard, or when it is reducing higher prices to the standard; but competition becomes destructive when it is used to destroy goods and drive them from the market by reducing the price below the standard, thus intending to prevent or reduce the supply of them.

Herbert Spencer long since discovered that competition was positive or relative; as a positive force it was destructive and operated between parts of the same aggregate, using one part to destroy another.

Thus when cotton cannot find a market at its standard price, it begins to suffer from positive competition by cotton combatting with cotton and destroying the surplus by destroying the price, and ending the combat by reducing the area under cultivation.

Relative competition regulates prices by attraction—any price seeking to rise above its standard meets the attraction of other prices held to the standard, which would thereby become relatively cheaper, and any price

rising above the standard will pull its price out of its true relation to other standard prices.

Let us suppose, for example, that sugar sells at its standard or monopoly price. If this price seeks to rise above the general standard, or general monopoly level, all other prices related to sugar must also rise or they become relatively cheaper than sugar and will attract demand from sugar, and thus they hold its price to the level of the general standard. When cotton dropped suddenly from fourteen cents a pound in 1910 to nine cents a pound in 1911, there was no general decline in wealth over the entire civilized world, which might compel the South to bear its share of the general loss. While wealth is generally increasing all over the world, there is no excuse or reason for declines in prices of goods, and cotton producers are entirely within their rights when they demand an explanation of the enormous loss in price of cotton which they alone are called upon to suffer and which damage is increased by the higher prices for other things they are forced to pay.

THE NATURAL LAW OF A STANDARD PRICE.

The fact that nature seeks at all times to secure a standard price of twice the cost for all labor products, is so important, if true, as to demand the most sincere and careful consideration of every intelligent citizen.

The price of cotton above cost is both cause and effect, and for this reason it is quite difficult to explain; the

labor that is not engaged in producing cotton, but which must be paid from the money derived from the sale of cotton, makes the price above cost, but the money put into circulation by employing this labor, makes this money become the cause of the price above cost.

The advance in price above cost is demanded in order to circulate the quantity of money necessary to employ the laborers who buy the surplus cotton, and this money is scattered broadcast when such labor has been employed.

The standard price must include the wages of this secondary labor, so as to gather in the scattered money so that it may be used over again to employ secondary labor.

It should be perfectly clear that the money paid out for labor and material to produce cotton, must be collected back when cotton is sold or cotton can not be produced. It should be equally clear that taxes, and the labor and material for all building purposes, for railways and roads and other services within the same territory, must also be collected back from the price of cotton above cost.

There is a difference in collecting the cost of cotton and collecting the price above cost, because the cost of cotton is more readily secured in the open market than the addition of price above cost.

The question then arises, why should the price of cotton hesitate in finding its true level, which includes the wages of all kinds of labor?

The difference in collecting back the cost of cotton and.

the price above cost, is based upon the fact that the price above cost demands a temporary inflation of currency derived from the trade of surplus cotton with an equal surplus of other products.

This inflation of currency is derived from credit, and this credit may be offset and cancelled by debt, and debts may arise when prices are normal and cancel the required volume of credit, and a low price year will follow a year of good prices, because the increase in debts has prevented the inflation of money demanded by a standard price.

TRADE IN SURPLUS GOODS.

The trade of our surplus product for another is not as simple as it may at first appear, owing to the fact that the standard price requires the surplus to be coined into a quantity of new money equal to the price of the surplus.

Nature exchanges cotton with pig iron, for example, by requiring each of them to exchange for something else in order to divide each of them into equal units, according to the rule that things which are equal to the same thing are equal to each other.

In the North, for example, two apples may exchange for one orange, equalized by the fact that in the South two oranges will exchange for one apple. Before a surplus of apples can trade with a surplus of oranges, the exchange must give rise to a standard of value, and apples must sell for twice their cost measured in oranges.

But, to secure the profit from the price of each above cost, a roundabout method is required in order to create the standard of value; a unit of ten oranges, for example, must be selected to trade for twenty apples, which have then cost ten oranges; the twenty apples must then exchange for forty oranges to be able to pay for the apples which consume ten oranges, leaving a remainder of thirty oranges costing twenty apples, and then a unit of ten oranges must again exchange for twenty apples to pay the cost and extract twenty oranges profit as the difference between the cost and the selling price.

Trading apples for oranges and trading oranges for apples, is an illustration of every trade, and such exchanges are greatly simplified when the currency may be inflated so that each surplus may be coined into money at its trading price, and for this purpose a surplus currency is developed from bank deposits, which saves the bartering back and forth of one surplus for another to create a standard of value.

BANKING.

A very slight examination of banking will prove that a great volume of credit is available for all purposes of trade by which wealth may coin itself into the required volume of money at its standard price.

The total bank deposits are limited by natural laws to a sum about equal to five times the volume of primary money, and with three billion dollars of cash in circu-

lation, bank credits reach their limit at fifteen billion dollars.

Coining the surplus of every crop into credit money at a standard price is the very foundation of national wealth and is the source of civilization.

The quantity of any product becoming surplus is not determined by the forces of production, and the surplus does not vary with the quantity produced, as would appear to be true without examination.

The part of any particular product which becomes surplus is split off from the main supply by laws of distribution, by laws which the consumer puts into action.

The standard price is composed of two parts; one part is the cost of labor directly engaged, and the other is composed of the price above cost and should equal the cost of secondary labor.

The standard price separates the portion of any crop which is to become surplus from the whole crop by the proportion which the price above cost bears to the total price, and the smaller the crop and the higher the price above cost the greater will become the credit surplus.

Thus, for example, in 1910 twelve million bales of cotton cost eight cents a pound and sold for six cents above cost, or for fourteen cents a pound; hence the proportion of six-fourteenths of twelve million bales determined that five million bales should become surplus and sell for fourteen cents a pound.

In 1911, the crop was three million bales greater than

in 1910, but the price of nine cents a pound was only one cent above cost, and this one cent price determined that the surplus derived from fifteen million bales should be less than two million bales selling at nine cents, whereas the twelve million bales of cotton made five million bales surplus.

Commodities and manufactured products succeed each other so rapidly, that a cash market is required for their benefit, which market in turn demands a quantity of money directly in proportion to the cash price.

For the reason that a cash market demands a corresponding volume of money, any failure in coining the quantity of money is instantly compensated by a fall in price to equalize price with the lower quantity of money.

All labor is not producing goods so quickly consumed, the price of which must respond so sensitively to the quantity of money, and as a result more time may be given a smaller volume of money circulating in the capital market by postponing cash payment.

On account of the slower manner in which capital is consumed, cash is not required in the capital market and the circulation of credit may take longer time than cash and may thereby substitute a credit market with time payments for a cash market with cash payments.

This difference in time in circulating different quantities of money, divides the quantity of cash from the quantity of credit, and divides quick bank credits from the

main body of credits, most of which have become extinct by being offset with irredeemable debts.

Because a volume of credit may take more time to circulate than an equal volume of cash, there is given an opportunity to destroy the quick credit upon which a cash market demands. Instead of the volume of bank checks remaining active the volume of fixed debts gains upon the volume of quick credit until the money required for standard prices cannot be set free, and prices fall in order to accommodate themselves to the money available.

The reason that prices of commodities suffer from a failure in credit rather than prices of capital, is because commodities must be quickly sold and consumed to make room for new supplies, and therefore the price of them demands a corresponding volume of money which will circulate as rapidly as goods pass from producer to consumer.

Capital, on the other hand, can postpone its cash market and sell on long time, and can maintain a standard price with a contracted volume of money by borrowing money, but when no more money may be borrowed the entire capital market will have been destroyed.

BANK STATISTICS.

The volume of cash in circulation in any community is always twice as great as the cost of production demands, but as bank deposits grow, this volume of outstanding

cash is contracted to become a reserve in banks, and as the outside volume contracts, the circulation of bank checks must replace it.

For this reason, a part of the price of goods must depend upon a volume of credit money, and only the cost of goods can be collected in cash.

When goods are selling at retail for twice their cost, bank deposits increase very rapidly, the profit from one crop piling on top of the profit of another, but banking cannot expand credit indefinitely, and when deposits reach their limit the further increase in bank credit is cut off automatically.

Experience in banking has demonstrated that one dollar set aside as cash reserve, will protect ten dollars of deposits and make them payable in cash on demand.

The function of banks is to build up deposits and contract as much of the cash to the reserve as the demands of business will permit, and when half the cash has become a reserve the limit in volume of currency of all kinds has been reached.

There can be no disputing the fact that nature has been extremely liberal in providing an ample quantity of money to sustain standard prices.

It is evident to any one acquainted with banking, that a tremendous volume of bank checks are being issued and cancelled daily, and it should be equally clear that gains and losses in the distribution of wealth are closely

associated with this daily expansion and contraction of the currency.

If this process of inflating and contracting bank credit becomes merely the cancelling of old debts and instituting new ones, instead of being a change from distributing wealth to new owners, then the benefits of this great circulation of currency may be lost.

This fact will become clearer upon a survey of banking statistics; in September, 1910, the total banking power in the United States was given as follows:

1,700 Savings Banks Deposits, 3,700 Million Dollars;
Cash Reserve, 150 Million Dollars.

1,000 Loan and Trust Companies: Deposits, 3,000 Million Dollars; Cash Reserve, 300 Million Dollars.

7,000 National Banks Deposits, 5,500 Million Dollars;
Cash Reserve, 700 Million Dollars.

12,000 State Banks: Deposits, 3,000 Million Dollars;
Cash Reserve, 300 Million Dollars.

900 Private Banks: Deposits, 300 Million Dollars; Cash Reserve, 30 Million Dollars.

Total 22,600 Banks; Total Deposits, 15,500 Million;
Cash Reserve, 1,480 Million Dollars.

The total cash reserve held by 22,600 banking institutions to cover more than fifteen billion dollars of deposits, was a little less than ten per cent. of total deposits.

Fifteen billion dollars of bank deposits are presumably

payable in cash on demand and should supply every community with a flexible and ample volume of money not only sufficient to maintain a cash market for commodities at standard prices, but to support a cash market also for all other wealth at the same standard.

The enormous volume of bank deposits should allow labor to sell its services for their value in money on demand, and allow all accumulations of labor in forms of wealth to sell for their value in money on demand. The presumption that bank deposits are payable in cash on demand is a vain presumption, and only about ten per cent. of deposits are so payable, and the circulation of credit is limited accordingly.

The flexibility of bank deposits depends upon the loan account, and unless loans are payable in cash on demand, the deposit account has but little more elasticity than the loan account.

Instead of bank deposits representing a credit currency of fifteen billion dollars, this sum is contracted by the loans which cannot be paid.

This estimate of only ten per cent. of bank deposits being available as currency, will be disputed upon the theory that clearing exchanges tell a different story, and for the year ending September 10th, 1910, the exchanges between banks averaged five hundred million dollars a day, while the earnings of labor were but fifty million dollars a day.

Bank clearings represent a mass of transactions which

have no vital connection with industry and commerce, and when the clouds of speculation are cleared from the financial sky, it is discovered that only five per cent. of such clearings represent changes in bank deposits.

It is foolish to assert that because the entire cotton crop, for example, is bought and sold once a month on cotton exchanges, with bank credit, that such activity has any influence on the vital cotton market or that it assists in the circulation of money upon which the standard price of cotton depends.

The Union Pacific Railway is bought and sold once a week on an active stock exchange, and to assert that such sales represent actual business, is to claim that the profits of merchants and laborers are thereby seeking investment and are seeking spending money by selling investments.

The vital currency problem is connected with that portion of fifteen billion dollars of bank deposits, which is being constantly renewed in the general markets by the consumption and distribution of wealth among the masses of the people.

Out of a total of fifteen billion dollars of bank currency twelve billions are effectually retired from circulation, by being offset with permanent bank loans.

This estimate may be conclusively demonstrated when a decline of deposits threatens the stability of the entire banking system. When bank deposits begin to fall the acid test of flexibility is being rigorously applied, for then the volume of credit which the banks may actually

provide, is disclosed by the ease or difficulty with which the cash reserve may be used to entirely liquidate the deposit account.

As soon as deposits decline five per cent., each bank begins to call in its liquid assets, and another decline of five per cent., spreading uniformly, would destroy the entire banking function of society under present conditions, because there are no liquid assets except the cash reserve.

Instead of bank deposits circulating in natural channels, and being subject to wide fluctuations in volume, they have become instruments of debt; deposits are tied up by investments instead of being free to circulate as currency.

If bank deposits were protected by liquid assets, the destructive competition made necessary by a failure to secure standard prices could not arise, and panics and hard times would be impossible.

The progress of the country demands a variation of twenty-five or more per cent. in bank deposits, and if banks are strained to the point of rupture when deposits decline ten per cent., then the solution of the banking problem does not lie in a direction which will increase the power of bankers to further expand and solidify the liquid credit of the country.

Banking runs along smoothly while credit is being inflated, as any currency system is stimulated by inflation, but the moment inflation is checked and deposits begin to

decline, then the weakness of our financial system is disclosed and it demonstrates that the fault lies in the failure of capital to become payable in cash on demand, and thereby maintain equal time in the circulation of cash and the circulation credit payable in cash.

Bank deposits fail to supply an elastic currency because the assets of a bank are not elastic, and assets cannot become elastic until securities are made payable in cash on demand by creating reserves for this purpose.

What benefit does the country derive from permitting banks to contract half the cash into their vaults as a reserve, if they cannot furnish a volume of credit greater than the cash they take from circulation?

The failure to liquidate loans when called upon is always a failure to sell the security at a standard price, and this hardening of deposits, does its greatest damage in taking ten or more billion dollars from active outside circulation, and thereby destroys the market for capital, and prevents the distribution of wealth to labor.

The cotton market as well as the entire commodity market is necessarily a cash market, and when half the cash has become bank reserves one half of commodity prices must depend upon credit currency replacing the cash held in bank reserves.

When debts arise they do so by lengthening the time in which a contracted volume of money circulates by allowing sales to be made on time payments instead of cash payments, and debt grows by what it feeds upon; it

forces capital which cannot be sold to borrow the money, instead of coining the sum required for a cash market.

Debts harden bank assets, and change them from the quick to the dead, and this contraction of credit invades the cash commodity market and commodity prices decline so as to equalize them with the volume of money in the cash circulation.

Cotton does not stand alone, as it is supposed to do, depending upon its intrinsic value, but, on the contrary, its price is intimately connected with bank deposits payable in cash on demand.

The financial power of Wall Street and New York City, is based upon the fact that it contains the only cash market for capital in the United States, and although this cash market is an artificial one, and draws liquid credit from all over the country to one insignificant center, and although this cash market fails miserably when it is most badly needed, and it inflicts enormous losses upon innocent investors, yet it has become of vital importance to general business, because it is the only source of considerable quantities of liquid credit in the country.

CHAPTER II.

THE STANDARD PRICE OF CAPITAL.

If the facts concerning a standard price for cotton have been hard to understand, a standard price for capital will prove no less difficult.

Cotton has a relatively fixed supply which is produced and consumed by labor annually, and cotton demands a cash market and a volume of currency that counterbalances its cash price.

Capital consists of a large and unconsumed surplus which has no fixed cost of supply, its price is based upon its net earnings, and is derived in some strange manner from present or from prospective wages of labor.

Labor is compelled to furnish new capital without being paid for it, and is required to wait for its pay until capital seeks to be reproduced in seeking to sell for its value in money. Remember this fact in the beginning, that the reproduction of capital is the reproduction of the money represented by its price.

The capital of the country, its railroads, factories and other property, is not consumed like other commodities, but its value is consumed by being earned and spent.

The value of capital is too great to be distributed to laborers like commodities are distributed, and, as a re-

sult, the distribution of wealth in the form of capital, depends upon a third form of money called securities, which act as carriers and distributors of the price of capital, the same as goods carry value, and such securities have the power of inflating the currency so that wages may increase and enable labor to buy and sell securities in the same way commodities are bought and sold.

The increase in quantity of money, which should enable laborers to buy the securities of capital, must come from the increase in bank deposits above the volume of deposits required in the commodity market.

There is on hand ten or twelve billion dollars of bank deposits which should be in constant circulation buying and selling one hundred billion dollars' worth of capital in a cash market within a given time, the same as three billions of cash is in constant circulation buying and selling fifteen or more billion dollars' worth of goods each year.

The condition absolutely necessary to the circulation of secondary bank deposits, is a cash market at a fixed standard price for capital, which price and market must be secured by each corporation for its own capital from a reserve it should maintain for that purpose, in the same manner as banks maintain a reserve to keep depositors' accounts at standard prices and on a cash basis.

With one hundred billion dollars' worth of securities selling at par on demand, and convertible into ten billion dollars of bank deposits, created for that purpose, the

bank deposits could change into securities and back again—from securities into deposits—as often as the owners of wealth would change with the new generations coming upon the stage, and with each of them acquiring their share in the total wealth from the circulation of a great volume of money, which embraces the total wealth.

In order to earn and consume the value of capital, ten or more billion dollars of dead bank deposits must be made quick deposits, and be made to circulate in the wage fund two or more times each year, in addition to the present wage fund. To secure this resurrection of ten billion dollars of dead credit, a cash market is required for one hundred billion dollars' worth of securities, which market demands that each corporation treat its own securities as deposits in banks are treated, and securities must be made redeemable in cash at par and interest on demand.

It sounds very well to promise an addition of one hundred billion dollars' worth of business to the active cash market, by which the ownership of wealth will be constantly redistributed to the rising generations, instead of being controlled by ancestors.

This is the kind of talk, it may be remarked, that "listens good," but how may it be made good, how can the mortuary assets of a bank be turned into a living circulation among laborers?

The process by which capital must be reproduced and consumed does not differ in principle from the process

by which goods are reproduced and consumed; each depends upon the circulation of a volume of money great enough in quantity to establish standard prices of twice the cost price. When it is claimed that the standard price of cotton is twice the cost, it does not mean that different costs of cotton are doubled in the standard price, but it means that the entire cost of the cotton crop is doubled in the selling price by doubling the volume of money in the hands of consumers; this inflation of money once in the hands of consumers, does not spread uniformly, and cannot possibly do so. Where the quantity of any commodity is not great, it may sell at five times its cost from a shading of the standard price of any great crop like cotton.

Thus when the standard price of capital is fixed by natural law at twice its cost, this price is not to be understood to double all costs of capital alike, some capital may sell at five times its cost, while other capital can only sell at cost, or below cost.

This relation between cost and selling price of capital, must be fixed the same as the relation between cost and selling price of goods; that is to say, the total volume of money outstanding is inflated by doubling the total cost, but each form of goods or capital is free to attract as much of this money by demand as it can secure, and this mobility in the circulation of money determines the lines of progress.

For example, if a new line of commodities is introduced, then a volume of money equal to double the cost

should be added to the circulation, but this new line of goods may attract a volume to itself which will enable it to sell at five or ten times its cost, thus indicating a new direction for production, and at the same time reducing the price of something else that is going out of existence.

With capital the same rule applies, and its securities represent new lines like new goods, and although the cost price at which securities are sold must be fixed, yet the expansion in the selling price of capital is kept in line with progress, by allowing each corporation to issue its own securities without regard to the cost of its plant, and to demand no other limit than that the issuing corporation shall be able to redeem them on demand at par and interest.

THE CIRCULATION OF MONEY.

In discussing the movements of money it would be well if it could be simply explained that prices above cost are like weights lifted above the earth, which fall to earth the moment the sustaining power is released.

Money circulates by an attraction like the attraction of gravity, wherein the difference in prices above cost attracts different volumes of money because money has no such difference of its own.

A commodity may and does advance in price, while money remains at a dead level of value, but money may secure an increase of its units by its ability to move and attract the difference in price which commodities carry

above cost. Money will circulate or will not circulate, on account of the fact that its own value is the most desirable value in existence, and other things being equal, anyone will prefer the value of money to the value of anything else.

Having money, one has value which is not contained in any form of commodity or security, and which is therefore able to move and exchange for any commodity or security, and change back into money again, to buy at one level of prices and sell at a higher level.

Having value in its most desirable form by having money, the question arises, what will induce a man to part with money for something less desirable, and the answer is that he will only do so in order to get more money by the process. When nature fixes a standard price at twice the cost, the distribution of money to individuals will depend upon gaining the difference between the cost price and the selling price. When a man with money discovers he may buy at one price and sell at a higher price, the human motive is introduced to help secure the natural order of civilization, and man unconsciously becomes the instrument of intelligent action in the design of Nature.

The standard price for commodities regulates the volume of money by which they are distributed, and in order to gain wealth the owners of money must buy at cost and sell above cost.

Attracted by gains in price, money will circulate to the

limit of the ability of labor to produce anything which may be sold for more than it cost, and the check to this circulation comes from a fall in price.

It is probably clear to the reader that the distribution of capital depends upon the awakening to life and circulation of ten or more billion dollars of dormant bank deposits, but that such bank deposits are intimately connected with the standard price of capital, requires further explanation.

The capital of a bank is not contained in goods or raw material or spent for labor like other capital, but it consists of credit for which there is an insatiable demand.

For this reason when a bank has loaned its cash capital, the same money is returned without cost to the banker to be loaned over and over again until the capital of the bank has been loaned five times, and is collecting interest from five times its capital instead of one time.

The profits of banking will be held by competition to the general level of all profits, and by multiplying the number of times a bank loans its capital, the rate of interest on money is reduced to half the rate of profit upon capital.

The rate of interest on money determines the cost price of capital, and double this rate creates the standard price for capital at twice its cost price, thus connecting prices of capital with deposits of banks.

The current theories of capital which seek to explain its origin and growth, are so far from the truth, and are

so contrary to common sense, that it becomes difficult to treat them with respect, and it is impossible to treat them with the contempt they deserve.

Public prints and economic writings abound with advice to laborers to save money, so as to supply the world with the capital it requires; because one man may gain money by refraining from spending money, it is assumed that capital accumulates in the same way.

If each person spent but ten cents per day, and deposited a dollar a day in a savings bank, the market for goods would fall to the ten cent level, and there would be no need for the deposits of banks, because there would be no market in which they could be put to use.

It is true that one should not live beyond his means, and it is also true that he cannot do so unless he lives at somebody's loss and expense.

The advice to live within means is almost entirely confined to laborers, who are expected to perform miracles when spending beggarly wages.

Living beyond one's resources is living at some one's expense by contracting debts, and by spending the money some one else earns who is never permitted to spend it, and who is therefore cautioned about how he spends the remainder after the major portion of his money has been borrowed and spent by the so called capitalists and great captains of industry and commerce.

If living upon the proceeds of debt is to be made the issue of economy, then indeed may the capitalist draw in

the horns of conceit, for aside from the profit he derives from imposing debt and slavery upon labor, he can accumulate but little money from any service he may render humanity.

The rich are not asked to save and economize in order to accumulate capital—such advice is confined to labor, because it is self evident that capital originates with labor—but, on the contrary the rich are encouraged to spend money lavishly in order to return the money to circulation they have taken without giving.

More dishonest than the advice to labor to save money, and advice to the rich to spend it lavishly, is the apology for debt, based upon the theory that future generations can be made to pay for the wealth we now create and enjoy. If posterity can be made to pay for any of our present wealth, they can be made to pay for all of it, and we may as well cease working altogether. But we are also the posterity of our ancestors who would long since have taken full advantage of the opportunity to saddle upon us the cost of their own luxurious living had they been able to do so.

The truth is we fool no one but ourselves with debts which we promise to pay in the future, for this future payment is the vain pretense that promises a fool's paradise.

If our finance system demands the circulation of a quantity of money great enough to allow capital to sell for cash on demand, and labor to sell for its value in

money on demand, will not such a market require an enormous expansion in the volume of primary money?

An inflation in the volume of cash could not replace the flexible circulation of credit, because no more cash can get into circulation than the cost price of commodities will permit.

The total circulation of currency should naturally be divided as follows:

Three billion dollars in cash, one half of which has become bank reserve, leaving one and one-half billion dollars of cash in actual circulation.

Three billion dollars of bank checks replacing the one and one-half billion cash, requiring a greater volume because of the slower speed in credit circulation.

Twelve billion of reserve deposits intended to supply any deficiency in commodity markets, and to supply a volume of money to buy and sell one hundred billion dollars' worth of capital as often as labor may reproduce it.

Any failure on the part of labor to share in the circulation of twelve billion dollars of bank deposits, is a failure to create a cash market for capital.

It is not for nothing that nature has developed an automatic process of expanding the currency by allowing the volume of cash to produce a surplus of bank deposits five times as great. In the total of fifteen billion dollars of bank deposits will be found the volume of currency the laws of nature supply for the distribution of wealth, and

a volume sufficient to permit capital to sell at twice its cost and sell for its value in money on demand.

The volume of money furnished by nature to secure a just distribution of wealth has never been permitted to circulate at any period in the history of civilization, because debts developed with the first appearance of wealth, and prevented the circulation of capital money by destroying the selling price of capital above cost.

PRIVATE PROPERTY.

Private property is acquired by purchase in the open market, where everyone is supposed to have an equal chance to buy, and where money is supposed to accumulate only to men who perform useful service for the people. The failure to solve social problems is a failure to distinguish between buying for cash and buying by creating a debt which promises to pay in the future. When fixed debts are examined, the question arises as to who actually supplies the money or credit which the debt absorbs, and who will be required to furnish the money if the debt is paid.

When debts of a particular kind deprive the public of the benefits of a cash market, and of the benefits of the volume of money such a market requires, then debt invades the rights of the public and ceases to become a mere personal contract.

Nature did not abandon man when he became a member of organized society, and natural law was not set aside

to make room for legislative enactments. The natural law which protects labor from accumulated wealth requires all wealth to be bought for money in a cash market, and requires the quantity of money shall increase as wealth increases.

If wealth is not distributed to laborers as rapidly as labor can earn an increased volume of money equal to the increase of wealth, it will be distributed to the men who can supply money from a restricted volume by borrowing it.

The fact which stands out clearly and the fact which defies contradiction is this; that money brought into circulation by increasing the debts of capital must fail to circulate when the limit in debt is reached, after which time no further distribution is possible except to creditors, and the money in circulation will be limited to the lowest possible wages of the laborers who can find employment as slaves.

The world has been fooled in its estimate of the importance of the capitalist and banker, because credit may inflate the volume of money, and because unearned wealth may be secured from such inflation by buying at cost and selling at a standard price.

When money fails to circulate naturally it may be forced into circulation by borrowing bank credits, but such borrowed money can only continue as long as it takes labor to redeem and cancel credits with cash in the retail market.

CHAPTER III.

THE ORIGIN OF CAPITAL.

If the value of capital is not intrinsic and if it is not based upon its labor cost, and if its price depends wholly upon a rate of profit derived from the annual sale of goods, how may capital circulate the volume of money with which it is bought and sold in harmony with the volume of money buying and selling goods?

Capital consists of built up, or built in, commodities, which is an accumulation of past labor, and which greatly exceeds in quantity and value the power of present labor to reproduce.

The fact that capital is derived from past labor, in contrast to the fact that goods are the result of present labor, creates two distinct circulations of money; one quantity turns over in the cash commodity market within a given time, while an equal quantity may take more time to circulate in the capital market.

Past labor has been consumed, and the money which buys and sells it must be money which passes through the hands of living laborers, or it must be money borrowed from the present circulation, with the promise to restore it in the future.

If the living are to receive the benefits of civilization, they must be permitted to share in past accumulations,

and their only hope of doing so is in sharing in the greater volume of money which buys and sells all wealth in a cash market, and the natural law demands, therefore, that the quantity of money be increased to include all past labor, and in this way all past wealth becomes a part of present distribution.

The difference in the origin of the price of goods, and in the origin of capital, may be illustrated as follows:

A merchant accumulates ten thousand dollars profit from the sale of goods at standard prices, and he spends the profit in building a store at a favorable location. The store building may or may not be valuable; its value will depend wholly upon the fact of whether or not it is so located as to increase profits from annual sales, and if profits add a thousand dollars a year to income, the building will sell for ten thousand dollars on a ten per cent. dividend basis, or for twenty thousand dollars on a dividend basis of five per cent. The labor which created the building is not taken into account at this time, because, at this point in its history the building is a mere change in the form of the profits derived from goods; laborers must wait until the price of the building may be able to add a corresponding volume of money to the circulation, and then higher wages will create the only stable market in which to sell buildings, as well as it creates the market in which to sell goods.

The building is a gift to the merchant from an expansion of money, but such inflation is only a temporary

expedient on the part of nature to gain time; the currency must again be inflated by a standard price for buildings before labor may secure a return of profits in goods and before capital can be recovered by labor, the success or failure of one depending upon the success or failure of the other.

Laborers do not receive goods as wages, but they are paid in money, and since primary labor keeps fifteen billion dollars in circulation each year to buy goods at standard prices, secondary labor is expected to keep an equal sum of fifteen billion dollars a year in circulation with which to buy capital at standard prices.

It is this secondary sum which determines the price of capital, and capital depends upon its ability to attract money from this sum; the dividends capital derives from the sale of goods is the center round which capital crystallizes and attracts money from the secondary circulation.

The one thousand dollars a year dividend which the merchant credits to the building does not furnish any money with which to buy it, and dividends do not increase the volume of money in circulation.

Capital develops spontaneously from profits when it concentrates the sale of goods or the production of them to favorable locations; the concentration creates greater or less profits at different points, and it is necessary to improve each location and increase the volume of business at such points so as to secure the dividends upon the capital required.

This fact is well illustrated by modern development where great manufacturing enterprises gather near a center favorable to supplies of coal and other raw material, and is again illustrated by the concentration of great retail stores in the central locations of cities, where the great volume sold will multiply the number of profits derived from the single unit, such locations permit great accumulation of capital to arise on account of saving labor time. The combination of a number of small and independent factories, with improved machinery, into a great industrial organism, and the combination of a number of separate stores having different lines of goods into great department stores, does not, in itself, add a single dollar to the total wealth nor increase the volume of money paying wages.

Modern concentration of capital, and the development of monopoly, is not, by itself, a wealth creating process, but is aggregating a definite and fixed number of profits into more compact space and into less wasteful processes, and the growth in size must not be mistaken for anything more than an accretion of fixed units into greater totals which does not increase the total wealth, and does not increase the total wages.

The concentration to favorable locations may enable capital to greatly increase the output of goods, and the sales of them, but in order to do so there is forced upon capital the necessity of increasing its quantity without a corresponding increase in its earnings, which are held firmly within limits fixed by the standard price of goods.

Total profits are always held to a fixed sum by the law establishing a standard price, and this fixed sum can increase only by increasing the quantity of goods and wages of the consumers; it cannot supply capital with money; on the contrary, the value of capital is itself tied down by the limit in sales of goods and by the fall in the rate of profit which accompanies the increase in quantity of capital.

If a single corporation could, within a single state, combine all the elements of production and distribution it would thereby concentrate to itself every profit in industry, and its capital would sell for a price depending upon the annual sales of goods. For example, if annual sales of goods were fifteen billion dollars at twice the cost, the profit would represent fifty per cent. for capital upon a selling price equal to the selling price of goods, and if capital could keep its cost down to a sum equal to the cost of goods, the annual profit on its capital would be the annual profit on its goods, no more, no less. But if the volume of capital must increase its rate of profit will decline as the quantity of capital multiplies the annual value of goods.

Thus when the selling price of capital is equal to the annual price of goods, its rate of profit will be fifty per cent.

When capital advances in value to twice the annual value of goods, its rate falls to 33 per cent. and the rate of interest follows and adjusts itself to half the rate of

profit. When the value of capital is three times the annual value of goods, its rate is twenty-five—four times the rate is twenty—and so continues, the value increasing while the rate of profit declines.

The money with which capital may inflate the currency is readily and easily supplied by the facility with which a bank may expand its deposits to five times the volume of cash in circulation.

Thus a bank, for example, finds it has ten thousand dollars of free cash on hand.

A merchant secures a loan of ten thousand dollars and is given credit for a deposit of ten thousand, and one thousand dollars of the free cash is placed in reserve, reducing the loanable cash from ten to nine thousand dollars.

A broker secures a loan of ten thousand dollars and is given an equal credit for a deposit, and a second thousand dollars is taken from the free cash and put to the reserve account.

A builder is next to secure a loan of ten thousand dollars to erect buildings, and gets a deposit credit, and the reserve grows to three thousand, while the free cash contracts to seven thousand.

A farmer borrows ten thousand dollars to buy cattle and market grain, and again the reserve grows to four, and the free cash declines to six thousand dollars.

A promoter borrows ten thousand dollars to start a new

industry and to begin manufacturing, and gets credit; an officer of the local government follows, who needs ten thousand dollars to anticipate taxes, and gets it.

A merchant wants to discount bills and borrows ten thousand dollars in advance of his collections, and the inflation may continue until half the currency in circulation has become a bank reserve.

Thus ten thousand in free cash may change to ten thousand dollars of cash in reserve and build up bank loans and deposits to one hundred thousand dollars.

Looking at the easy expansion of credit from the inside of a bank and being unaware of any law defining limits to it, the banker quite naturally thinks there is no other limit than his particular ability in keeping his own accounts safe and flexible. Bankers find they soon reach the limit of their loan account, that no more free cash accumulates outside the required reserve, while the contraction of credit by debts has intensified the demand for loans instead of the inflation having satiated such demands.

Bankers, therefore, having notes and other securities which they consider good, but which they cannot liquidate, seek another process by which they would use the notes as security and issue new money to create a new debt of their own; they would issue a new volume of spurious cash to be inflated or contracted at their own pleasure or profit, and they would build a second pyramid of bank debts to stand with its point upon the apex of

the pyramid of loans before contracted, and to tower four or five times higher than the first.

The volume of cash in circulation furnishes the foundation for prices and creates a standard of value by limiting the quantity of cash to the cost of goods, but creates a new volume of bank credit five times the quantity of cash.

The cash in circulation is multiplied by six to arrive at the limit to the annual sale of goods, and the annual sale of goods is again multiplied by six to arrive at the limit in the quantity of wealth. For illustration, take periods in our development from 1850 to 1910, and estimate the growth in wealth upon the aforesaid basis, as follows:

MONEY IN CIRCULATION.		TOTAL ANNUAL GOODS.		TOTAL CAPITAL.	
1850—	300 Millions \times by 6 =	1,800 Millions \times by 6 =	10,800	Million Dollars.	
1860—	450 " "	2,700 " "	16,200	" "	"
1870—	700 " "	4,200 " "	25,200	" "	"
1880—	1,000 " "	6,000 " "	36,000	" "	"
1890—	1,500 " "	9,000 " "	54,000	" "	"
1900—	2,000 " "	12,000 " "	72,000	" "	"
1910—	3,000 " "	18,000 " "	108,000	" "	"

The statistics of wealth given by the census returns may be compared with this illustration to verify the law of a standard of value, demonstrated by the growth in wealth.

When the limit in circulation of money establishes a limit to the annual value of goods and to wealth in any decade, it does not imply an end to progress, but it does imply that progress must take new directions, and

that society must invent new supplies and must put new industries into activity; must develop new natural resources and must change in a given upward direction: the limit is notice to leave the outgrown, to throw much wealth into the discard, and to get into line with progress.

CHAPTER IV.

THE DISTRIBUTION OF CAPITAL.

Goods in great quantity and variety may be sold each year at standard prices and half the selling price may be entirely wasted, being spent for useless labor or for improvements that endure for one year only.

Surplus labor may be employed to create capital, but fires and floods may each year destroy as much as has been accumulated, and in either case labor would be fully employed, goods would have a ready market at standard prices, but wealth could not increase nor could civilization develop.

In order to prevent a situation of this kind, a situation where civilization becomes stationary or where it turns upon a fixed axis in a settled groove, natural laws have been made to govern the distribution of wealth and to reward the individual who may cause capital to appear which will prevent waste and which will economize the most precious of all forces, namely, human labor.

In the beginning of society, when savages were first gathered into tribes, each savage was provided with an easy savage existence from the bounty of nature, if he remained contented as a savage.

Aspirations, coming from the connection of the savage with his tribe, change his contentment into a desire for

progress, and however slow he advances in the beginning, he moves along a path determined for him by natural laws.

It was not an easy task for nature to change savages into workmen whose ancestors for millions of years had hated work. The plan was a simple one, however, where every action, however small, when in the right direction, was followed swiftly by reward and where every action in a wrong direction was as swiftly punished.

After a people are supplied with a quantity of goods, then variety develops in every line, in food, clothing, houses, worship, means of travel and communication, and new varieties call out new indulgences, and a new danger confronts the advancing civilization, a danger from which all nations so far have perished.

The danger lay in the satisfaction of the mere animal appetites which are developed to the limit of human desire, both in quantity and in variety of supplies, a danger from surplus wealth, and from the slavery introduced to sustain the luxury and idleness of the privileged classes.

Escape from this danger is provided by the natural law of secondary development, whereby capital intervenes and gives a new direction to the ambitions of men and insensibility increases the demand for labor and would free workmen from slavery, and at last secure the blessings and rewards of self-conscious creative work, a reward God has secured to Himself by creating the Objective World.

To prevent the waste of one half the labor, set free by the ability of the other half to supply the world with commodities, capital was given as a bonus, as a reward to the finder, like the discovery of gold, to the man who prevented the waste of labor.

Nature does not develop particular human beings who are set apart to become money makers, while others remain hewers of wood, but leaves an open field in money making; any one may discover the treasures scattered along every path of progress. However great may be the differences in ability among individual men—however infinitely an inspired genius may tower above the average man, the acquisition of wealth is an exception, and as a rule gains in wealth have their origin in gifts from nature which are sought to be made perpetual by human legislation. One individual may be incomparably greater than another, as God is infinitely greater than a man, but the distinction which marks out particular men in all other respects fails absolutely when it seeks to apply to the acquisition of wealth, which is definitely limited to useful human service made active by the circulation of money.

There is one rule only which governs man in making money, and that rule is to earn it by useful labor, and there is no exception to this law, and what one gets without earning another earns without getting.

Differences in wealth arise from natural law in the beginning because wealth may be found and nature rewards the finder, but the moment the finder would sell

his wealth for its value in money, he encounters the law of labor, "to eat bread by the sweat of the brow."

It is not claimed that the bounty of nature ceases when labor is required to earn money, but the claim is made that the bounty is diffused instead of being concentrated, and is divided among the multitude, as was illustrated by Christ with the loaves and fishes.

LINES OF PROGRESS.

There are two great streams in the progress of humanity which check and counterbalance each other, and prevents either stream from becoming stagnant, and thereby arrest the onward flow of civilization.

One stream is that of supply, of the production of an ever increasing quantity and variety of consumable goods, a stream which scatters population over the entire earth to seek a livelihood and to secure the greatest satisfaction with the least exertion.

The other stream is that of demand, which gathers together the scattered products to the best locations, where they may be most easily consumed, which stream requires the development of fixed wealth and the concentration of population.

When the desires of the people are simple, and when no opportunity has developed to secure a variety of products, they will scatter widely and be sparsely settled, so as to find room for their fields and flocks.

But the diversity of nature in climate, in soil, in minerals and metals, creates an ever increasing variety, and brings back the scattered population to centers of activity, and concentrates them upon fertile lands near raw material, along water courses and harbors, upon easy lines of communication, so that different volumes and different kinds of supplies may move and exchange with the least resistance.

THE REWARDS OF NATURE.

The rewards given by nature to secure the development of civilization are double rewards, and although a standard price creates a bonus in favor of the trader, such a bonus cannot be secured unless capital is developed which takes up surplus labor and changes primary producers into consumers.

If there was no capital in existence, and if the reader could imagine work to be carried on, each one for himself, each worker would be producing a very small part of the supply, and half of the time of each would be wasted in exchanging products in order to secure a share in the variety of them.

The parable of the loaves and fishes comes into existence when an inflation of currency is given away, the volume of which is equal to the money earned during the time used in creating and exchanging the supply, and this expansion in money from saving time gives to its time saving finder what appears to be unearned wealth, but

the time saved, when received as inflated money, must be used to pay labor so as to make the inflated money valuable.

A system where each small trade was carried on separately between millions of individuals could not help but demonstrate that the time wasted might become as valuable as the time employed, and a gain of time from hundreds of millions of trades would become hundreds of millions of gains if trade could be concentrated and specialized to a few only of the millions of workers.

Each part of any supply which a worker would trade becomes a surplus seeking an exchange with an equal surplus of a different kind, and will create the beginning of great markets and of great changes in supplies for which the markets will discover innumerable new outlets.

Millions of trades will seek the profit to be gained, as was illustrated with two apples exchanging for one orange, equalized when two oranges trade for one apple, by which the differences in apples or oranges become profits.

Each particular unit in hundreds of millions of units carries its own individual margin of profit, and when each unit trades with another at twice its cost, this margin of profit becomes wealth to its finder.

The effort to gather in millions of separate profits leads to an exciting rush, like that to new gold fields, to find the particular locations where the development of capital will permit the required saving of time in trading surplus goods.

The theoretical limit to this gain is half the selling price as a profit; and in order to secure this profit, the volume of sales must increase to such an extent that after deducting all cost half the gross sales will be profits.

The most economical distribution possible for the entire output of industry is reached when in each case the gross sales are concentrated to favorable locations which permit the volume of gross sales to divide into two equal parts, half expense and half profit.

A merchant, for example, will build a store building at a selected location where he may concentrate trade for the considerable variety of goods he expects to carry in stock, and his success will depend upon the relation he establishes between gross sales and expenses.

As a rule, the beginning of concentration does not show a profit for a year or more, and the finder of a location must seek out lines of trade and regulate expenses to the volume of sales. In estimating the standard price at double the cost, it is to be understood that each element in the cost doubles until the consumer is reached, and, therefore, the expenses of the merchant do not impair the theoretical profits of half the gross sales.

The labor employed by a merchant in increasing the sales of goods, or in delivering them to consumers, is a self-sustaining labor, which pays itself by its own work, and does so by adding its cost to prices and by such costs doubling in the standard price, and a merchant therefore may gain a profit on account of the labor he

employs in selling goods, for the same reason a manufacturer gains a profit from labor he employs in producing goods.

What needs to be done by merchant or manufacturer is to select his location and his raw material so that his own expenses will not prevent the rise in volume of gross sales from which he secures his profits.

A railway system supersedes the slower and more expensive movement of goods by teams, whereby small units of transportation are sold at great expense, which gives way to a vast volume of transportation at small expense by the development of railways.

A railway system is a good example because it separates its own service from all other costs, and its reward is easily discovered in the standard of value which permits it to sell transportation at twice its cost, and if it succeeds in increasing the volume of transportation to its most efficient level, its gross receipts will be half profit, to be credited to its capital account.

In selling meat, for example, which has become one of the great industries where total sales of two firms are almost five hundred million dollars a year, the particular service is complicated by buying cattle, by manufacturing and by transportation, so that the profits of this industry cannot be definitely ascertained from its gross sales.

The reward of capital does not end with its success in consolidating production and distribution to the most

favorable locations, and in taking up surplus labor, but its reward only begins at this point.

When capital succeeds in separating profits from the selling price of goods, the volume of profits each year will determine the price of capital, which then becomes fixed wealth and returns a fixed income.

The annual profit establishes a standard of value for capital equal to twice its cost, because the cost of capital will be limited by the interest upon money, for which there is an insatiable demand; the profit derived by banks in loaning money is double the interest rate, thus fixing the standard rate of profit at double the standard rate of interest, and allowing the standard price for capital to be twice its cost.

The quantity of money circulating in the capital market does not accumulate from the dividends it receives, which are wholly consumed, but the capital must originate its own money by the quantity that is bought at cost and sold above cost according to the same rule that a quantity of goods bought at cost and sold above cost circulates a given quantity of money within a given time.

The annual dividend is the index around which a volume of capital crystallizes, the quantity being determined by the annual profit and by the rate.

Assume, for example, that the annual sales of goods at standard prices equals fifteen billion dollars, one half of which may become profit provided the utmost success has been developed in handling the total output of goods.

The quantity of capital required to secure this profit will continue to grow on account of the desire of the people to share in the income, and as the quantity grows, the fixed limit in sale of goods requires the same quantity of profits to spread over a constantly expanding surface of capital by reducing the rate.

If the total capital, for example, need only equal the annual selling price of goods, the rate of profit is 50 per cent.; as the quantity of capital increases to become two or more times the annual value of goods, the rate declines in exact proportion.

VALUE OF CAPITAL.		PROFIT.		RATE.		INTEREST.	
15 Billion Dollars—	7½	Billion—	50	Per Cent.—	25	Per Cent.	
30	"	"	—7½	"	—33½	"	—16½
45	"	"	—7½	"	—25	"	—12½
60	"	"	—7½	"	—20	"	—10
75	"	"	—7½	"	—16½	"	—8½
90	"	"	—7½	"	—14½	"	—7½

Thus a fifteen billion dollar annual business will support a volume of capital six times as great as the annual sales, or a value of ninety billion dollars, and at this point the rate for money falls to half the reduced profit, and the hazard in new business, on account of the low interest on money, sets a limit to the further increase of capital.

Although an average rate of fourteen per cent. seems ample for capital and seven per cent. seems a high rate for money, yet the extension of credits at this rate is always followed by losses, because the theoretical rate is

never realized in practice, and the actual rate will be lower.

As the country is being settled, the best and most favorable locations are first improved and occupied; the sites for cities and towns and railroads become fixed, and manufacturing will center where the known supplies of coal and other mineral and metal offer the greatest advantage. This absorption of capital in fixed development should also absorb all the available labor, and should increase the wage rate in proportion to the increase in wealth. New business therefore will be menaced by increasing costs from higher wages and from less favorable locations, and from poor deposits of natural resources of every description, in addition to a lower average rate of profit.

THE REPRODUCTION OF CAPITAL.

Assuming the volume of capital has reached its approximate limit of one hundred billion dollars, the question arises as to what changes will occur in the ownership of capital.

The total capital of one hundred billion dollars represents a price of twice its cost and includes a profit of fifty billion dollars, by which its owners have been able to acquire wealth without work. This fat in the selling price is the reserve to be called upon to reproduce the given volume, so that capital may accommodate itself to the constant changes required by new development.

The reproduction of capital, like the reproduction of goods, is the process by which it is distributed, and by which labor acquires its share of it.

In the beginning of trade, and when a first settlement forms in a cleared forest on the banks of a river or lake, the first town is a one-story town, and is built of wood.

This temporary one-story town is quickly replaced by a larger and better town of two stories, which in turn is again replaced by developing a combination of wood and other material in a new town three stories high.

As the town grows to a city, the three-story development of brick or stone keeps expanding, and twenty-story buildings of steel and fire-proof material point the way to the future, and the way of incessant change.

As it is with towns of one story growing into twenty-story cities, so also it is with all other development, in trading, in transportation and in manufacturing; the modern one-story birth is followed by an expanding production at constantly diminishing costs and increasing wages. A one-story modern railroad must be superseded by the two-story railway, to change immediately to the three-story system of railroads, and in turn the three-story structure gives way to the coming railway kingdom of the twenty-story class.

The increase in the growth of capital, followed by higher wages and lower dividends, makes for a more complete economy in the use of labor and for an enlarging distribution of wealth to the masses of the people.

The limit in the power of labor to reproduce capital is a limit fixed by the selling price of goods, the sale of goods should create an equal and parallel sum, so that the annual reproduction of goods and the annual reproduction of capital may equal each other, and each may circulate an equal volume of money in the same period of time.

As soon as capital accumulates, the natural law of a standard price establishes an equality of exchange between the primary laborers who reproduce commodities and the secondary laborers who reproduce capital.

The products of primary laborers, for example, sell at twice their cost for fifteen billion dollars, and secondary laborers are supplied with goods by an expansion of money with which they buy them from primary laborers.

Secondary laborers can not pay for goods with debts, as an outcome of the expansion in currency, and such inflation is only created to gain time so it may be offset by a corresponding expansion in the selling price of the product of secondary labor.

When secondary labor reproduces capital each year equal to the value of goods, and when such capital sells at twice its cost, then primary labor is furnished a supply of capital from a secondary inflation in exchange for the goods it surrenders.

Primary labor surrenders half the commodities it produces, and the natural law decrees that it can never be paid for its surplus commodities, unless it is paid by re-

ceiving an equal surplus of capital, and the failure to share in capital becomes a failure to secure the value of its own labor.

A standard price for capital is the absolute condition upon which its reproduction depends, and any failure in the standard price means that a corresponding volume of capital cannot be sold in a cash market.

The facility with which buildings are reproduced when they will sell at twice their cost, may be illustrated as follows:

When the First National Bank of Chicago desired to erect a building suitable to its location, and to derive an income by increasing the volume of rents, it was compelled to include in the site a number of buildings that were outgrown, one of which was a modern twelve-story building, which was destroyed to be covered by the new sixteen-story structure.

It seemed a waste of capital to destroy a twelve-story building and replace it with one of sixteen, but when each sells for twice its cost, the margin above cost carried by the greater building was a gain instead of a loss.

Everywhere, in the central portions of cities over the civilized world, will be seen the extinct remains of the one-story, two-story and three-story towns, which are blocking the way of the ten and sixteen-story improvements seeking to come in and replace them; old structures refuse to give way to new ones, because, instead of the new buildings selling for twice their cost, the cost of land

will take off as much of the price above cost as competition will force the building to surrender, making the reproduction of buildings unprofitable.

THE COST OF LAND.

Cotton planters little suspect that cotton land, and other land deriving its income from the price of cotton, gets its price at the expense of the standard price of their staple crop, and that the market for land explains the loss of market for all other property.

Why should a cost of land be saddled upon the industries of the country? Land may be treated as a free gift of nature, and may be used without having a cost price to interfere with industry.

When a price for land makes its appearance, it does so at the expense of standard prices for labor products, and takes away as much of the price above cost as destructive competition will force from other prices.

If the standard price of cotton is sixteen cents, and if cotton cost eight cents a pound, the price of land will rise by absorbing as much of the price above cost as competition will determine, and as the rate of interest will allow land to capitalize.

The total area of land devoted to cotton is about thirty-two million acres, and the general crop on this area may be estimated at fifteen million bales, and the price of land may absorb five cents a pound, or twenty-five dollars a bale.

Twenty-five dollars a bale each year will then be estimated as profit from capital invested in land, and the total amount of value the price of land will absorb will be fixed by the number of bales produced and the rate of interest on money.

If the safest investments for money pay five per cent. and returns the principal in twenty years, land will absorb value at this rate, and twenty-five dollars per bale on fifteen million bales, estimated for twenty future years, will create a price for land of three hundred and seventy-five million dollars a year for twenty years, or seven and one-half billion dollars.

This sum, becoming land value, prevents the circulation of the money which would reproduce the same price if it was capital, and in becoming land value it has prevented the development in the South by which its capital would expand from the wooden era into the more modern one of brick and stone.

If the rise in price of land was to succeed immediately in depressing other prices, it would prevent all progress as soon as it made its appearance, but the circulation of money enables this loss to be postponed by allowing the money required for standard prices of goods to be borrowed.

The price of land does not at first succeed in depressing prices of goods to the cost of production, but it does succeed in holding down the price of all improvements on land to their cost, and in so doing wages are held down

to the level fixed by this cost, while the price above cost becomes a price of land, and the loss of money in the wage fund is made up by creating debts which future labor is expected to pay.

The destruction of all prices above cost by the rise in the price of land is only postponed by debt, and is interfered with by panics and hard times; relief in the commodity market allows the people to live from hand to mouth, while their wealth is concentrating to a few families.

The fact that commodities demand a cash market, and the fact that the standard price makes necessary the full employment of labor, permits the market for commodities to hold to standard prices, while improvements upon land are reduced to their cost, because money can be borrowed, giving improvements as security.

This fact, that cotton may hold its standard price while capital is forced to sell at cost, is the important fact upon which the success of any plan to valorize cotton must be based.

To be able to maintain a fixed price for the entire cotton crop at a trifle below double its cost is entirely practical, provided the entire crop is put under a control similar to coffee as it is now valorized.

If the entire cotton crop was valorized at fourteen cents a pound, for example, the success of the scheme would be easier if the cost of cotton at eight cents was paid as rapidly as the cotton was ginned, and the re-

mainder was paid as rapidly as cotton was sold, so as to get as much credit into circulation as was practical.

Cotton is a crop that will carry over from year to year like coffee, and the world's demands are practically uniform for the entire crop at fourteen cents a pound. If cotton sold, however, at a uniform valorized price of fourteen cents, the manufacturer, who was sure of getting his cotton when he wanted it at a standard price, would allow the planters to carry the surplus; hence fourteen cents must represent the minimum price at which seventy or eighty per cent. of the crop is sold, and then the price should advance regularly as the remainder was offered for sale.

This is the principle upon which the so-called Trusts regulate and maintain prices. They do not hold up prices in defiance of the laws of trade, but seek to prevent a loss in price from the rise in price of land, and their success can be temporary only, and their defeat is only postponed, because the price of land is working silently to undermine every market by an ever-increasing debt which can never be paid, and which is ever contracting the volume of credit, and civilization will be carried down by the destruction of all markets which will result from the continual increase of irredeemable debts.

CHAPTER V.

THE FAILURE OF REPRODUCTION.

Inequality in wealth arises almost wholly from changing the bounty of nature into a power to enslave labor. The gifts of nature are not gifts of land, as is generally claimed, but are gifts of capital, and such gifts vary according to the different quantities of capital forming at different centers of attraction.

Instead of natural resources and favorable locations becoming the foundations for an ever-widening demand for labor of greater skill and intelligence, they become property in land and block all paths to progress and close all opportunity to share in fixed wealth.

Instead of the growth of capital developing character and morals by a wide diffusion of wealth, it is used to concentrate wealth, to engender the most distressing vice and poverty by changing gifts of capital into gifts of valuable land.

When a standard price arises, it becomes a measure of differences in costs and creates a standard of wages for labor and a standard of profit for capital.

The standard price is like the level of the great oceans, from which all elevations and depressions are estimated, and it is the interference with this measure by the price

of land that is responsible for the wide inequality in every circumstance of civilization.

Nature has made no mistake in offering rewards to men who promote human welfare, and as long as land may be had without cost, the benefits arising from the bounty of nature will spread uniformly to each, according to his service for humanity.

The moment a cost for land makes its appearance, just so much of the reward of industry concentrates to the owners of land, and is thereby prevented from becoming a price for labor.

When the cost of land absorbs half the price of capital, and equals one-half the total value of property, the entire circulation of money to buy capital comes to an end; a part of the laborers will be continually seeking work and their competition will reduce wages to a bare subsistence.

When labor can neither buy or sell capital, then the concentration of wealth upon borrowed money begins by which the owners of wealth trade with each other, until a few families control it all.

The circulation of capital demands that ten or twelve billion of dollars of bank checks change owners in the same time that ten or twelve billion dollars' worth of commodities change owners.

But if there is a failure in the reproduction of capital, the volume of money with which labor should buy capital is retired from circulation, and labor is forced to compete for the cash to buy a meagre living, while the money for

capital is secured by property owners who borrow bank deposits and who create capital debts which future labor is expected to pay.

When standard prices prevail in every market, an enormous quantity of bank checks will circulate as currency; one credit will pay off another, as one dollar pays another, and tens of billions of dollars may distribute wealth and pay labor with but little demand upon cash. When prices fall below the standard, the loss in the quantity of money is instantly felt in the failure of this credit circulation, and the only relief is to substitute a promise to pay money when no money is to be had.

As commodities and building material of every kind are regularly produced and distributed, a living wage may be paid to both primary and secondary laborers, and standard prices for goods may prevail. The secondary laborers who share in the distribution of goods are producing buildings, factories, railways, farms and other forms of capital.

When all labor is thus drawing a living from the commodity market, by an inflation of the currency which doubles the cost price, this living wage will temporarily cut out labor from sharing in the capital market.

With its living assured, labor seems to depend upon capital for half of its employment, and it appears that unequal wealth is a natural condition which divides the population into classes according to ability to accumulate wealth.

But a natural law seriously interferes with this seeming superiority of property owners, a law which requires all wealth to reproduce itself, by selling for its value in money which labor alone can circulate.

The natural law does not tolerate a feudal system of wealth, whereby a property class may take credit for supporting labor by providing work.

Although nature was generous in bestowing capital as a bonus, yet this generosity soon ceases and the reproduction of wealth demands a redistribution of the gifts of capital, and a failure to comply with this mandate is visited, if necessary, with the destruction of civilization.

The natural law decides that wages may be held out of circulation temporarily by an inflation of the currency, when used as a credit, and wages may be so held out until an equal inflation may arise in the capital market, and on this account labor must secure the benefit of capital in order to secure a return of the goods advanced to create capital.

If fifteen billion dollars a year is paid out for goods costing half this sum, the profit must first be paid to labor to create capital before the goods can sell to other laborers from an inflation of currency.

In order that primary labor may be paid for surplus goods, and secondary labor may be paid for the capital it produces, capital must first have its surplus set aside by a standard price, and then this surplus exchanging with another equal surplus creates a secondary inflation

of money, which will allow labor to buy as much capital each year as it sells goods.

That wages are much below this standard needs no proof; standard wages should consist of a sum with which labor could buy all the commodities it can produce each year, to which an equal sum is added for buying capital each year.

The low wages of twenty-five million laborers who receive less than five hundred dollars a year each, confines the demand from them to common labor products, throwing the entire system of production and distribution out of balance.

This enormous volume of low-price products, compared with the limited supply of luxuries, has the effect of overloading the food supply with uncalled-for transportation and distributing expenses, which a higher wage rate would distribute more uniformly over a much better balanced supply.

The result of this lopsided market is an abnormal rise in prices of food out of all true relation to prices in general, which operates against wages that cannot advance to half their standard rate, forcing capital to load down such supplies with all the costs the low wages can be forced to carry.

This abnormal development of the supply creates universal complaint from labor, on account of its failure to secure a living, and complaints from capital that it cannot earn its expenses and replacement charges and is

gradually becoming bankrupt from its constantly increasing indebtedness.

PROSPERITY.

The history of the rapid rise in wealth and prosperity of every State in the United States is a history written upon blank pages of virgin forest and soil by naked arms without the assistance of capital except the capital which develops on its own account.

Every new population is scantily supplied with money, but upon free land a small volume of money will quickly develop an increasing volume of business, and standard prices will soon create all the money any people have the power to circulate.

Cities grow from virgin soil in a few years by the rapid circulation of a small volume of money, speeded up by a high rate of interest and profit.

The new wealth of a rapidly developing community becomes the property of the men who change free land into private property, men who had no capital, but who in a few years command hundreds of millions of dollars' worth of wealth.

Cities grow and buildings arise as if by the magic rubbing of Aladdin's lamp; the money kept in circulation by the activity of new building not only pays for all labor and material, but supplies a volume of money with which this wealth is being bought and sold and distributed to its owners.

For some mysterious reason, the benefit expected to arise from the increase in wealth not only fails to appear, but a partial paralysis of industry succeeds every period of building activity.

The money put into circulation each year from building operations piles wealth in stacks upon every favorable location, and such money should not go out of circulation after the wealth has been created, but greater quantities of money should come into use and remain in use as greater quantities of wealth are permanently added to the supply.

It is very plain that the wonderful increase in volume and variety of goods must be accompanied by an equal increase in the quantity of money, and why should not a similar increase in quantity and variety of capital be accompanied by its corresponding increase in quantity of capital money?

As must happen in all cases when land is treated as private property, wealth cannot be distributed according to the intent of nature, but the rewards of nature are perverted, wealth becomes a prize in a race to secure favorable lands, and it becomes a speculation and business becomes a gamble; politics is a game of spoils where the special privileges of land owners, capitalists and bankers are protected.

Men failing to land a prize in the mad struggle for favorable lands soon discover that all the doors of opportunity have been closed against them, and they face a

future with no promise, a dreary and hopeless struggle for subsistence.

LIMIT IN WEALTH.

There is a limit to the industries, to the farms, the towns, cities and railways a people may support, because one-half the labor of all the people is required to sustain life.

New railways, industries and cities cannot be duplicated merely because there is plenty of land upon which to build them; the limit in quantity of capital is fixed by the limit in sales of goods.

As wealth grows in stores of goods, in farms and cities, in industrial plants and railways, the opportunities should multiply to secure a share in it as the quantity of wealth increases, but opportunity will depend upon the regular circulation of a volume of money that embraces the wealth, and which permits the regular distribution of wealth in company with the similar distribution of goods.

Shares in accumulated wealth are shares in its reproduction within a given period, its owners being required to sell a given proportion each year for its value in money, and any failure to sell in a cash market for capital becomes a failure of the reproduction and distribution of wealth.

The men who first occupy a new country secure the most favorable lands, against which proceeding no valid objection may be made, but they afterward profit enor-

mously from a rise in the selling price of favorable lands, to which rise in price great objection need be made, because a gift of capital arising from labor is thereby changed to a gift of land coming from nature, and labor is denied a return of the gift of capital by being charged with a cost of land which they should have without cost.

A man builds at a favorable location, and is immediately offered three thousand dollars for an improvement costing but one thousand dollars; and since the locations to which capital may thus concentrate are limited, and since men cannot build anywhere and sell at a profit, the difference between the cost and selling price is estimated to be the intrinsic value of the location.

The rise in price of land has a wholly opposite effect upon the circulation of money than the same rise in price of the improvement.

When capital concentrates to favorable locations, either from the production or sale of goods, the money with which the improvement is made is money received from the standard price of goods, *and is money which must be returned by a standard price for the improvement.*

After capital is established and its annual profit enables it to pay dividends, the same rule continues and the profit has no short cut by which it can return to labor, but it must go the round-about way provided by natural laws of distribution.

A building costing one thousand dollars and selling for three thousand dollars creates a two-thousand-dollar-

building surplus above cost, to exchange with other surplus capital above cost. When this surplus becomes a price for land, there is a failure in trade by which it would inflate the currency.

The inflation of money arising from selling goods above cost, permits the widest expansion and experiment in introducing new kinds of supplies, because this surplus of money may give to a new object an enormous profit which in turn will cause the new supply to increase rapidly until the standard price is reached. So also the price of improvements above cost is expected to make available an enormous surplus of money by which changes and experiments with capital may be made wherever it is possible to use new capital to advantage.

If the capital required at a given location only costs as much as the annual profits it makes, the rate of profit would be one hundred per cent. and the fact or increase in the selling price would permit the rapid change and increase in capital to secure a high rate of profit for an ever increasing quantity of capital.

This is well illustrated by the recent rise of the automobile industry, which rise was at one time threatened by the fears of bankers, who claimed that the sales of machines and consumption of new capital in this industry would result in disaster to other business. But the automobile industry supplied its own capital; not only supplied the money with which the public purchased its product, but the money as well which it consumed as capital, and in-

stead of the automobile industry becoming a menace to general business, it has been its one anchor to the windward in trying times.

The fat in prices above cost is intended to permit the utmost mobility in progress, whereby old forms will be readily abandoned to obtain greater rewards arising from new forms, on account of the greater profit carried.

Making and selling buildings, factories and railways of different kinds is essentially the same enterprise of identical labor as making and selling different kinds of goods, and if the cost of land does not interfere with the standard price, the demand for labor in the capital market will add a sum to wages equal to the sum labor receives from the commodity market.

Every city in the world furnishes the student with thousands of instances where the cost of land is preventing the circulation of money by preventing the replacing of old structures with new ones.

Everywhere old and dilapidated buildings which return from fifty to one hundred per cent. profit in rents are permitted to encumber valuable locations, because the price asked for land is equal to the sum required to replace the old building with the new one the location demands.

For example, an old brick building worth no more than ten thousand dollars rents for eighteen thousand dollars a year, and a new building would increase this rent to thirty thousand dollars a year. The new building

would cost two hundred thousand dollars and sell for four hundred thousand dollars, and if capital was as free to supply the market with buildings as it is free to supply it with goods, the demand for labor to reproduce untold millions of capital would soon circulate the volume of money the market requires.

But the capitalist seeking to invest and replace an old ten-thousand-dollar structure with a modern one to cost two hundred thousand dollars, discovers he must pay two hundred thousand dollars for the land first, and have nothing, and must expend an additional two hundred thousand dollars for a building which he can scarcely sell at a profit and from which he can derive an income no greater than the rate of interest upon money.

If every location was open to capital, and if the public could be supplied with buildings by competition according to the profit they pay at different locations, the building boom and reproduction of capital would end the discussion of social problems.

CHAPTER VI.

THE FINANCE SYSTEM.

Examine the total wealth, with its value of more than a hundred billion dollars, and the fact will become apparent that while this wealth was being developed, no less than fifty billion dollars in bank checks was added to the circulation and was cancelled by being redeemed in labor.

The great mystery of finance is locked up in the complete disappearance of this money, and the reason a mystery is so concealed is because no scheme of finance has ever been able to recall the money into circulation and create the same market for wealth after it has been established as was necessary in order to produce it.

Every scheme of inflating the currency, either by direct issue from the government or indirectly by banks under government control, is based upon some theory whereby the value of property shall be coined into the money which buys and sells it.

Proudhon, one of the ablest writers on the subject, conceived the great idea that complete individual freedom would be secured if property sold on demand for its value in money, and if labor could sell on demand for its value in money.

To secure this much to be desired freedom, a theory of free banking was proposed whereby any association of

individuals would be permitted to issue money secured by the value of the property pledged to redeem it, thus inflating the currency wherever property existed with no other limit than a price of property which might climb so high as to try to reach heaven, a property which first creates more money and the more money increases its price and the higher price creates more money, allowing inflation to grow with what it feeds upon, until it explodes.

The fact, that the quantity of cash is limited by the cost price of goods, and the fact that any inflation of cash can only get into circulation by increasing total costs, were facts unknown to Proudhon, and are the facts that bring disaster upon every scheme of inflation which is in opposition to them.

The fact that *cash* is limited by the *cost* of goods is supplemented by an equally important fact that *credit* is limited by the price above cost, and this selling price is again limited by the cost, because credits based on price above cost must be made redeemable in cash based upon cost.

Credit is a child of cash, and each cash dollar has a certain fecundity by which it can give birth to a limited offspring of credit dollars, and these credit dollars in turn inherit a nucleus by which they become parents of other credit dollars, and expansion must proceed in obedience to the natural law by which growth and offspring are regulated.

The basis of elasticity in finance is founded upon the

ease with which credit is fertilized, and takes up the functions of cash in order to give birth to secondary credit.

Money expands in volume by a dollar in cash giving birth to at least two dollars of credit, and this credit in turn acquires the fecundity of its parents, and each dollar of primary credit may give birth to a family of secondary dollars. The increase of primary credit, over its cash parents, arises from the fact that such credit is one step removed from its source of vitality, and the reason secondary credit may multiply over its primary parents is because it is two removes from its source of vitality.

Cash is instantly redeemed in labor, and for this reason is so close to its source of vitality as to be inseparable from it, but primary credit is not redeemable in labor, and is one step removed by being redeemed in money which is redeemed in labor; secondary credit is two steps removed by being first redeemed in primary credit, which is then redeemed in cash, and cash above is redeemable in labor.

This indirect process provides room for money to expand and for wealth to grow and maintain its standard price while it is increasing in quantity; each remove from labor permits an expansion of money by the longer time it may consume before it reaches labor, and thereby keeps in circulation without forcing labor to redeem it on demand.

Primary credit expands the currency in proportion to

the increase of goods sold at standard prices, and capital grows in quantity by its ability to increase the quantity and variety of goods.

Primary credit will take on the functions of cash in buying and selling goods with bank checks as if they were cash, and will thus add a volume of checks to the commodity market, which performs the functions of both cash and credit. Capital demands a quantity of money greater than cash and primary credit combined and this great supply comes from surplus bank deposits, which move more slowly because they must be redeemed in primary credit before they may change into cash.

The great quantity of wealth accumulated from past labor may have its value coined into current money, provided a given proportion of such money is paid in higher wages, so that the total volume will, in due time, be redeemed by labor.

The secondary sum which must be added to wages is exactly equal to the sum received each year from the sale of goods, and the secondary sum must be an aliquot part of the whole value of capital.

The reason the secondary wage fund must equal annual primary sales is because the total value of capital is a multiple of annual sales, and the wages derived from capital must be that aliquot part of the total which the rate of profit determines it shall be.

The reason for including an aliquot part of the value of capital in the wage fund is found in the service which

present labor receives from the labor of the past and which must be measured in money based upon past labor, so that past labor can be valued and converted into current funds. Assume, for illustration, that any particular property seeks to sell for its value in money and it would coin the money for this purpose.

The nearest approach to this process is to substitute coinage by obtaining a loan, and the most scientific system of regulating such loans has been established by the Credit Foncier of France, an institution patterned after the work of Proudhon. The property owner desiring money from the Credit Foncier pays no commission, but supplies the information by which it is ascertained how the money is to be returned.

The bank is permitted to issue its own credit currency based upon the property it accepts, and it loans half the value, which is the usual practice over the entire world, but with this institution the loan is amortized so that the interest and a part of the principal is repaid each month, something on the plan of our building and loan associations. By cancelling a part of the principal with each payment, a circulation of secondary credit is established which represents the price of the property itself, distinct from the money returned as interest on the loan.

In seeking to discover how any property may coin the money for which it sells, it is discovered that the circulation and quantity of this money is provided by the cancellation fund, and not from the sum paid as interest.

The most important problem of finance is found in the fact that interest and principal represent two separate credit circulations, one being primary and the other secondary. Suppose, for example, a property returns a net income of six per cent. equal to the interest upon cash, the fact is beyond dispute that such an income cannot provide money with which to reproduce the price of the property itself, and it is on this account that loans upon property are limited to half their value, so that a part of the income may reproduce the money consumed by the loan.

A six per cent. rate presumably returns the value of a property in about sixteen years, but such a presumption is contrary to the facts, because a six per cent. income returns no part of the value of the property itself, but is only an index pointing to an equal annual income of six per cent., which will return the price of the property in about sixteen years.

The six per cent. interest rate on money comes from the sale of goods in the primary market and represents money paid in wages, and is as rapidly consumed as it is received, and it cannot originate a quantity of money with which to buy and sell the property. Capital must earn a rate that is double the rate of interest, and thereby establishes its standard price and the standard price separates its surplus from its cost, and the surplus may then inflate the currency by its own sale at the standard price, as was illustrated with surplus cotton.

The financial system is constructed in the following

manner: Cash—payable in labor, on demand—is the nucleus of circulation and is limited in quantity by the labor cost of goods.

Cash gives birth to primary credit by the rise in price of goods above cost, which rise splits off a part of the supply as surplus, to trade with an equal surplus, and to originate a volume of credit money, for trading purposes, by selling the surplus at the standard price.

The inflation of prices from primary credit provides the profit which is paid to labor to produce capital, and in thus employing labor primary credit performs the functions of cash and originates secondary credit from capital.

When primary deposits of banks are used to employ labor and create capital, such labor becomes the cost of capital which must crystallize and accumulate upon locations where the profits will be no less than twice the rate of interest on money.

The increase in the profits above the rate of interest causes capital to increase its price above cost, which splits off a part of the supply as surplus to exchange with an equal surplus at the advanced price, and generates a corresponding volume of secondary money for trading or distributing purposes.

It is required by natural law that the inflation of money above cost must be paid to labor.

The financial system is sustained by bank deposits, whereby a cash reserve sustains a primary credit equal to the total volume of cash, and where the cash reserve and

primary credit combined sustain a secondary reserve four times as great as the primary credit or twice as great as the volume of cash and primary credit combined.

The line which separates primary from secondary bank deposits is the line which divides the active daily checking accounts from the less active accounts.

Primary deposits of about three billion dollars buy and sell fifteen billion dollars' worth of goods each year, in connection with cash.

Secondary deposits of about twelve billion dollars should buy and sell a volume of capital each year equal to the volume of goods sold; but in addition to distributing new capital, secondary credit is required to keep the total price of capital at its standard by being able to buy any quantity offered in any year at the standard price.

If only fifteen billion dollars' worth of capital may be distributed to new owners because an equal sum is received from the sale of goods, how can the secondary circulation maintain standard prices for capital if twenty or twenty-five billion dollars' worth is offered for sale in one year? The elasticity of secondary credit, by which it responds to increased demands without a decline in standard prices, comes from the fact that the entire twelve billion dollars of secondary bank deposits acts as a reserve for this purpose.

The total secondary deposit of twelve billion dollars is being renewed from wages at the rate goods are being constantly replaced, and surplus wages should be invested

in capital at the rate they accumulate, which would not necessarily disturb the volume of secondary deposits.

If, therefore, a sudden demand arises to sell five or more billion dollars' worth of capital securities than are regularly consumed, it would reduce the deposit account temporarily, but it would also reduce the supply of securities and need not disturb the standard price.

The standard price of capital depends upon a sum equal to that realized from the sale of goods, which becomes new secondary deposits each year and which is drawn off by being invested in securities at the same rate.

This sum does not become wages before it becomes higher prices for capital, for the same reason that higher prices for goods must come first and provide the money to buy goods at the higher price.

This question of how an inflation of currency accumulates and advances prices ahead of wages, is simple when it is explained that labor advances its services at all times ahead of receiving its pay.

The advance in prices ahead of wages comes from an accumulation of money in small installments from millions of laborers who work and wait to be paid, thus giving out the first extension of time required to expand the currency by a lag in the time of paying wages.

It is a well-known saying among rich men that their chief difficulty in accumulating wealth was found in

saving the first thousand dollars, but with this start they obtained a command over labor, and the remainder of their gains were comparatively easy to secure.

Nature does not require saving for the first surplus which is to give command over labor and is to bring about the accumulation of wealth, nor does nature ask a particular class of rich men to furnish money for this purpose, but provides the first installment of money to raise prices from a lag in wages, and the rise in prices is kept moving over the market, inflating the currency to its required volume.

As long as standard prices prevail, a cash market will be a necessary result; the rise in prices must be followed by a rise in wages, because there is no other outlet for the circulation of money. As long as the total volume of goods can be produced and sold each year, and as long as an equal volume of capital can be reproduced and sold each year, the demand for labor becomes insatiable and the entire wealth must become the property of laborers, and total profits must be paid to labor as wages or as dividends.

CHAPTER VII.

THE FAILURE OF FINANCE.

The amount of capital nature distributes as a gift before she demands a return to labor is fixed by the extent of the territory she offers man to subdue and explore.

Nature gives away capital when it first appears in order to insure its creation, and after capital is once secured an equal sum may be taken from labor by debts on account of the inflation of currency necessary to reproduce capital which is equal to twice its cost; thus labor may lose capital once as it is being produced and may lose the cost of it the second time by the support it gives to debts, but then the injustice to labor will end and civilization will be destroyed.

The gift of capital is a lure inviting men to dangerous endeavor; to have them rush to the four corners of the earth seeking treasure; to have them improve each opportunity for profit; to travel, to invent, to discover, until the whole earth is known and until the first faint development at each point becomes the nucleus of the growth of wealth to follow.

While the lure of gain is extending the fields of industry everywhere, improving millions of farms, establishing the foundations for permanent towns and cities, and marking

out the lines of steam and electric connections between them, it is as rapidly concentrating half the population of the world to live in towns and cities and is as rapidly exhausting the supply of surplus labor, and the demand for more labor at low wages invades the ranks of women and children, who would have remained secure had wages advanced in company with the advance in wealth.

The first gift of capital is like the first crop from new lands under cultivation, but it is the gift of one crop only, and when the owners seek to convert it into a gift of money by selling it, the law decides that the inflation of money which includes the gift must equally include the payment of wages, and higher prices must be equalized by higher wages in order to furnish the required market.

The inflation of money which raises prices divides laborers into two great classes, half the total wages depending upon the cost price and the other half depending upon the price above cost.

The inflation of currency creates bank deposits which are paid out for labor and material in producing capital, and which are cancelled as rapidly as goods are consumed and must be replaced with new profits from new goods. The constant reproduction of goods, selling at standard prices, restores the bank deposits used in creating capital, and after capital has been established the same reproduction produces the perpetual flow of interest which is paid for the use of capital.

Capital must supply its own money each year by a

standard price for capital which exactly balances and equals the money paid for goods in the retail market.

A failure in capital to secure a market at twice its cost destroys the circulation of this secondary money and an artificial market is created by the men who can borrow the volume of money which would otherwise be supplied automatically from an increase in wages.

The amount which may be borrowed is exactly equal to the sum nature bestows as a gift in the first instance, namely, the cost price of capital may be borrowed when it has concentrated at favorable locations, and when it earns dividends equal to the rate of interest.

This permits a single reproduction of the gift of capital by creating debts which may expand until they equal the total cost, after which the artificial stimulation from debt ceases, and ushers in the end of the civilized world, and the history of the Roman Empire may repeat itself when modern nations assist in the destruction of each other by the attempt to postpone the fate which debt has prepared for each of them.

The development of capital is progressive; it grows with the momentum acquired by its own advance; the volume to be added to the supply each year will depend upon the profits received from goods and from the profits derived from selling capital at twice its cost.

The growth of capital depends upon the growth of bank deposits, and although bankers may inflate deposits quick-

ly, yet deposits may remain at their limit and industry may not advance.

Deposits must be broken up in payment for labor, and when they decline on this account the cash in the reserve is released, and may be loaned to restore deposits as fast as employment may be found for labor.

When capital is being reproduced and wages have not advanced, the profit from selling capital above cost will be divided among the owners of capital instead of labor, but such a division requires that the money must be obtained by creating debts.

The increase in debt is progressive, and it is accelerated when money in great quantity can be obtained in advance of the natural and regular increase of price which is expected to follow only after capital has been securely established.

The progressive increase of debt could never have gained a foothold but for the fact that favorable locations are limited and differ greatly from each other, and from the fact that the quantity of capital at each point depends upon the advantages of each location.

The competition for land arises wholly because different locations will crystallize particular forms of capital which will sell above cost on account of the sale of goods at such points, and competition for land does not arise, as has been falsely assumed, on account of any pressure of population against an insufficient supply of land.

Bidding up the price of land, by taking away the rise

in price of capital, has the effect of donating this price to the owners of land, and prevents labor from getting any of it, because the builder must sell the building at cost and must hold wages down, in order to secure a return of the cost of land.

The fact that labor is cut out from the distribution of capital limits the distribution of capital to property owners, and limits the amount they may secure by compelling them to buy it with the money debt brings into circulation.

The fact that nature limits buying to labor, by demanding a cash market, or permits buying by creating debts limited to the cost of capital, is the fact that prevents the price of land from circulating a volume of money by which land might be distributed and by which each laborer might buy his share of land from an inflation of land-value money as he is able to buy his share of goods with the inflation the price of goods circulates.

As long as land is advancing in price this gain will replace the profits consumed in producing and maintaining capital and will restore bank credits; the failure of the natural circulation of money prevents the payment of capital debts for the reason that the debt itself was necessary because money could not circulate, otherwise no debt would have been called into existence, and the money which debt called into circulation is cancelled and goes out of circulation when the deposits it creates have been spent for labor and have been consumed as goods.

As capital is creating more or less improvement upon

every favorable location, it also creates a perpetual market at standard prices for goods. This is true also when capital ends its first advance over the land and begins its first reproduction; the money arising from the advance in price of land is used to employ labor.

While land is advancing in price the speed of development is greatly accelerated, because the greater employment of labor in every direction keeps up the standard price for goods in every market, and to this profit in goods is added the profit derived from the advance in the price of land.

The advance in the price of land reaches its limit when the debt it creates equals the cost price of capital, and then, the volume of profit shrinks to the sum derived from the sale of goods alone.

As development is extending to locations of every description and is uncovering different varieties of natural treasure, the diversity of improvement is paralleled by an equal diversity in the variety of goods, the quantity of which may vastly increase on account of the increase of capital.

While the progressive expansion in volume and variety of goods is taking place, population will increase and wages will advance at the same time, and make it appear on the surface that capital is supplying money for the goods market.

The gain in wages from an increase in quantity and variety of goods is wholly a primary gain, and does not

flow from the increase of capital which takes place at the same time; this process confuses the student concerning the source of increased wages in prosperous periods.

Capital cannot increase greatly in quantity unless it also greatly increases the quantity and variety of goods, and as it extends the primary market to the four corners of the world.

Gifts of capital change into gifts of land for the reason that when land is treated as private property, no other method is open but to buy the land upon which capital may concentrate. There is no scarcity of land which prevents wages from rising, but the scarcity and difference of location, checks progress in every direction when land is treated as private property.

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When a price for land has been established by the competition to secure locations, this competition will create a price for unimproved or bare land, which price will be based upon the selling price of the improvement any particular location will support.

The ability to sell land far in advance of any money the improved location will generate, causes an advance demand upon bank credits, and this advance demand for money creates a debt.

The demand for money to buy bare land causes the money needed and created for other purposes, to be borrowed, and in doing so the loan anticipates the future

money which capital should supply, and capital is thereby relieved of its duty of creating money by a promise to pay money in the future, and no demand arises calling money into circulation to support a cash market, and this loss in circulation of money is equalized by a failure of a corresponding volume of capital to find a market.

When a bond issue is sold for a railway, equal to its cost, and bonds are payable in thirty years, the railway has been relieved from supplying the quantity of money represented by its bonds, and has deprived the market of this circulation, and what is clearly true of the bonded debts of railways is equally true of all long-time capital debts.

When development is rapidly conquering a new territory, land is first obtained without cost, and the advance in price of land will replenish the bank deposits consumed to create capital; replenish them to the same extent as though the profits were derived from an advance in price of improvements, and land continued, as it began, to have no cost. But when this advance in price of land ends and fails to reproduce the profits by which bank deposits are replaced, the reproduction of money by labor ends and bankers seek to replace labor by inflating the currency with a spurious circulation of water instead of blood.

The money which may be had in advance becomes a great incentive to bankers to multiply debts as rapidly as securities can be sold, and as rapidly as bank deposits can be replenished.

If the reproduction of an old wooden structure into a better one of the next higher period is to cost one million dollars, and if the accumulation of credit reduces the rate of interest so that a price of three million dollars can be secured, a profit of two million dollars becomes a tempting bait for the banker who supplies the credit and for the promoter who combines the required locations.

As one building period is succeeded by the next higher period, bankers will have insatiable demands for loans of millions for reproducing and for rebuilding the capital which then occupies all the points of advantage.

The supply of credit from which bankers secure billions of dollars to inflate debts must be derived from dormant secondary bank deposits which are absolutely in their control because they are not required in the primary market, and which are temporarily replenished by the profits derived from their own financiering, and they build one pyramid of debt upon the inflation derived from another, until the end of the increase of debt will bring about the catastrophe they are so industriously inviting and encouraging.

When advances in prices for land no longer replenish secondary deposits, the investment market narrows very suddenly by being forced to depend upon the profits derived from goods, and which can only be temporarily taken by preventing wages from rising.

A decline in wages must be followed by a decline in prices of goods by the failure of demand for them among mil-

lions of laborers, and a fall in prices of goods cuts off an equal sum in dividends and undermines the prices for securities, which then decline so rapidly as to cause what is known as a panic.

When secondary bank deposits are not replenished billions of securities are forced to depend upon primary deposits, and the edge of the precipice upon which all commercial enterprise has been built narrows suddenly, and the success or failure of billions of wealth is tied to the success or failure in the annual harvest of our most staple crops. The fall in the price of cotton has yet to write its final chapter by the decline in price of an avalanche of securities, the foundations of which are being undermined by low prices of cotton, to be followed by similar declines in prices of other staple crops.

As long as new capital may be supplied by reducing the rate of interest on money, the banks which can supply credit at the lower rate obtain an enormous monopoly of credit, because the reduction of the rate from six per cent. to four per cent. on twenty billion dollars of securities allows securities to expand to thirty billion dollars and provides ten billion dollars profit in new securities.

The increase of wealth upon a constantly narrowing basis of profit is fast pushing credit to the wall, and is fast preparing a world-wide calamity by a destruction of markets from a world-wide increase of debts.

The grasp of great bankers upon the twelve billion dollars of secondary bank credits is further concentrated by

their connection with the New York Stock Exchange, where they maintain prices for the securities they own and protect.

This control of credit comes to them because they are able to loan a greater proportion of the value of securities than may be loaned by other banking institutions, and they not only draw money from the entire country for investment on this account, but they force the securities to come to the market where they can obtain the greatest loans.

This pretense of a cash market on the New York Stock Exchange is rudely shaken whenever a real market for securities is actually required, for then the failure of deposits to be replenished puts the entire pressure of demand upon the cash reserves, and establishes the stock exchange as a fraud upon the public, maintained for the benefit of gamblers; but in spite of its failings, this cash market has so concentrated credit to one point as to make itself as necessary as a cancer which to cut out is to kill the patient.

CHAPTER VIII.

Remedies.

Two systems of social reform are securing a world-wide following because they recognize the foundations upon which civilization has been built—land and capital, but neither of them are conscious of the fact that debt is the fatal disease of civilization, and that the circulation of money is the most vital function of the body politic.

SOCIALISM.

The strength of Socialism is based upon its clear recognition of the rights of labor to own and control capital, and upon its vivid sense of the fact that the failure of modern society is due to the failure of labor to acquire capital.

Socialism presumes that this failure is caused by the greed of certain supermen called capitalists, who occupy the seats of the mighty and who oppress the people of the civilized world for the sole purpose of robbing laborers.

The Socialist reasons from analogy and reasons falsely; he accepts the abnormal in social growth as the highest and greatest manifestations of the normal, and he fails to realize that natural processes must work for the good of humanity in the future as well as having so worked in the past.

The Socialist forgets that this marvelous civilization has come into existence without help from human legislation, and has pushed its way upward in spite of legislative interference.

The Socialist admits the effectiveness of evolution in the past history of the race, but asserts that at the present time nature has become incompetent and must resign in favor of a Socialist administration. If the world would escape damnation, according to this theory, a new church and a new pope must be imposed upon a suffering people; the world in facing Socialism must face a modern revival of Jesuitism without God.

Seeing wealth gather and crystallize in great combinations of capital, the socialist reasons from analogy, and asserts that this process is the work of natural laws of evolution, and that this evolution will be completed when all separate combinations are merged into one great central power, and then evolution resigns and quits the job and turns the affairs of humanity over to the more competent powers which are to be vested in a socialist government.

Socialists take it for granted that the abnormal distribution of wealth is normal and is the result of evolution; they do not see that monstrous wealth is an accumulation of diseased fat.

The fear that combinations of capital will continue to increase in size until no law, natural or human, may cope with them, is a fear born from a failure to realize nature's

demand for efficiency, a fear that is blind to the fact that where growth in size and increase in efficiency do not harmonize, the increase in size must fail.

As has already been explained, the quantity of capital which may crystallize at any location around a profit is controlled by the efficiency in utilizing locations which are scattered all over the earth, and this fact alone bases the success of capital upon its keeping in close touch with its base of supplies.

The natural law for all capital has been explained as a law which limits its growth by its ability to arrive at the limit of efficiency, which is secured when half the gross receipts it collects may be credited to profits.

This standard of efficiency gives no advantage to corporations on account of their size, but, on the contrary, splits capital up into such parts as the particular circumstance in each case will decide; a smaller concern may reach the standard of efficiency as easily as a great one, and it cannot be made to suffer from competition on account of mere difference in size.

Socialists have an abnormal fear of the power of capital; they do not see that because a volume of capital is too small to be most efficient, it may also be too large; they do not recognize the harmony of natural law which keeps all things in equal relation to each other.

Great combinations of capital, as in a railway system, for example, demand the personal supervision of each laborer connected with the enterprise, one intelligence

balancing another, and the success of the business will depend upon vesting the management as closely as possible, with the men in charge of the physical works.

Bankers and financiers manage great corporations for the benefit of securities by the supervision of their own favorites and by an elaborate system of office charts, placing control in the hands of clerks and other incompetents who have less ability for the particular tasks imposed upon them than street arabs.

The Socialist assumes that this inefficient white-shirt supervision may be extended so as to include all industry and all commerce, and that socialist leaders will get the best jobs, otherwise there would be no inducement to lead.

The strength of Socialism is found in its vivid perception of the great truth that labor alone is entitled to the benefits of capital, and its success must be founded upon the right of labor, which is the law of humanity, and socialists rightly conceive that capitalists cannot constitute a class with special rights and privileges opposed to the rights of labor.

The weakness of Socialism is founded upon an hereditary fear of the Devil, implanted in the blood, and the capitalists has become the modern Devil of their imagination.

The weakness of Socialism is the reasoning by analogy, which disregards the fundamental facts of evolution, and neglects to observe the increase in debt as the cause of the increasing slavery of laborers.

Socialism is impossible because government ownership, under the plan proposed, would be an extension of the inequality which is now apparent, and which has been caused by withdrawing the price of capital from the circulation of money, thus preventing wages from advancing as wealth advances.

The further concentration of ownership, although under the control of the general government, would mean the further withdrawal of money from circulation, and it is immaterial who owns capital if labor is prevented from doing so.

LAND REFORM.

The other movement, becoming of world-wide importance because it recognizes a fundamental evil, is the land-reform movement, which expects to correct inequality in wealth by correcting the inequality arising from the ownership of favorable locations, which it hails as the mother of crimes, because land is thereby said to be monopolized.

The land-reform movement has its strength in the fundamental proposition that land is a gift of God for the benefit of all mankind, and to own land has become the great sacrilege of modern times.

The strength of this movement is found in the truth that land should be free in the sense that it should not have a cost price; and should not be treated as private property because it differs fundamentally from the things which may be rightfully owned; that the rights of property are conferred by labor and not by appropriating land.

Henry George, the great leader of the modern land-reform movement, saw clearly the underlying truth, and stated:—that “the rise in the price of land was the cause of the persistence of poverty in the face of amazing material progress.”

But when Henry George sought an explanation of this truth, he was misled into believing that the old theories of political economy, and more particularly Ricardo's Law of Rent, supported his theory with the authority of established opinion, but in this he was mistaken and his explanation accordingly failed.

To remedy the supposed evils resulting from the monopoly of location, the single tax is proposed as the sole solution, whereby all differences in income, attributed to the intrinsic value of land, will be absorbed by taxation, and the advantage which one location has over another is expected to be destroyed by the burden of taxes each will be required to carry.

Noting the fact that valuable locations in cities are not covered with suitable improvements, it is argued that to concentrate taxes solely upon land values will force the owner to make improvements equal to those now obtaining upon similar locations.

This theory neglects the most important of all practical considerations, namely, that improvements cannot be made merely because taxes make it unprofitable to hold land; much property is sold on account of the burden of taxation without such sale being followed by improvement,

for fear the improvement without a market would add to the burden instead of relieving it.

The weakness of land-value taxes as a solution of social problems is found in its theory of intrinsic value, by holding that wealth has no other limit than land and labor, and all that labor requires in order to create unlimited wealth is to have access to land; the theory utterly ignores all laws of progress which define limits to wealth in every direction.

It is the height of folly to contend that land and labor alone, regardless of laws of development, and of the circulation of money, is the sole requirement of production and of the increase in wealth.

That single tax is an admirable tax reform is true, but it is not a great reform, because its usefulness will be limited to correcting the inequality in wealth based upon inequality in taxation, and it may not touch other causes of distress.

Railroad building is also a blessing to society, and might, as well as single tax, be argued to be a solution for the wrongs of our times, because it forces land into use that otherwise is not valuable, and creates an enormous demand for labor not alone during periods of construction, but demands an equal supply of labor in its permanent operation and maintenance.

Taxation of land values as a social reform is similar to advocating road and railroad building merely because land will thereby be improved and labor will be given em-

ployment, without taking into consideration the fact of whether the new improvements may not become a burden instead of a blessing by increasing vacant houses and useless railroads.

The single-tax scheme, as it is being promoted, ignores the fact that within a single generation in this country tremendous areas of new lands have been put to every industrial use, causing the greatest activity of labor and the greatest increase of wealth in the history of mankind.

This wonderful expansion in demand for labor and wonderful increase of improvements upon land, did not solve a labor problem anywhere, but, on the contrary, resulted in making injustice more acute by demonstrating that instead of labor gaining by the greater quantity of capital it produced, it lost by receiving a less share as wages in proportion to the increase of wealth.

The correct remedy must combine the fundamental truth of Socialism regarding the right of labor to have capital, with the fundamental truth of land reform regarding the right of humanity to have land without cost.

It is now too late to return to a situation which might have been in existence had private property in land never become a social institution; it is not land owning itself that has blocked progress, but the fact that good locations being limited caused a gift of capital to become a gift of land. The reason it is now too late to reverse property laws is because the locations that are necessary to society are covered with capital, the ownership of which is expected to remain private property.

The true solution must work backward by accepting the present situation and by untangling the present injustice and bring about a new adjustment as rapidly as natural laws, freed from legislative interference, may right the wrongs of labor; there is no Gordian Knot to be cut by a Reformer, no Man on Horseback to mount upon a throne.

Opportunity is most ably illustrated by Henry George as consisting of a fertile field where labor, a great bull, is tethered by a rope to a stake at a central location, and grazing in the long grass the bull has wound the long rope of opportunity closely to the stake, and stands a close prisoner, bellowing for relief in a field of abundance, unable to move on account of the stake around which his rope of opportunity has wound itself.

The stake might have offered no obstruction, and the rope need never to have twisted, a turn at a time, and narrowed the circle of opportunity to graze in the rich grass.

The field is the field of industry; the rope is the length of Credit, which circulates around central locations where the stake of Capital has been driven, and it is only when the stake contracts the circulation of credit, one revolution at a time by the growth of rings of debt, that opportunity disappears, first by an insensible difference at the circumference, to become a total loss at the stake, with labor a close prisoner of debt, unable to free itself, and to bellow for help in the sight of plenty. Who shall drive the Bull the way to unwind the rope? is the question Henry George proposed.

Debts wound around capital at central locations can never be unwound by being paid, because the length of rope required to pay them is tightly gathered in a small and compact ownership of money; but debts may be abolished by simply unwinding credit; each turn of the rope taken from the stake lengthens credit and expands the field of opportunity; each turn in the right direction makes progress in that direction a simple matter of moving around the stake.

The way to unwind the rope is to change debts into credit, by making capital payable in money on demand, and protect the payment by a reserve the same as bank obligations are protected by a reserve and are payable in money on demand.

Government and municipal debts, as the chief offenders, should be the first to change and the first to unwind the most important supply of credit; and they would establish a standard rate of interest which would govern all other securities, on account of the unlimited reserve at the disposal of the government.

The reserve requirements, for a hundred billion dollars or more of capital, are now in existence as secondary bank deposits of twelve billion dollars, and it is only necessary to allow such deposits to redistribute themselves to corporations and furnish the reserves required, so as to make every obligation of capital payable in cash on demand.

With this simple plan in operation, banking reform of the right kind, would become inevitable, and credit would

be sold as commodities are sold, one price to each and every customer, without discrimination or favor.

The market price of credit should be publicly proclaimed by the rate of discount, and no stringency should be allowed to interfere with the equal right of any person to buy the supply with the same kind of security.

When the supply of credit runs low the discount rate would be advanced, and, as every loan was a demand loan, each would pay the higher rate or liquidate and allow another to buy the credit who is willing to pay the higher price.

Every loan being a demand loan, the rate of discount would regulate the supply of credit to the demand, and this rate need not change arbitrarily, but should change in fixed units for stated periods.

THE AUTOMATIC INCREASE OF CASH.

In calling to mind the fact that from 1850 to 1910, the volume of cash in the United States increased from three hundred million to three thousand million dollars, and was the controlling power in an increase of wealth from about eleven billion dollars to about one hundred and ten billion, the fact demonstrates that the increase in cash should not depend upon accidental or legislative inflation.

The increase of cash money comes now, as in times past from the increased production of gold and from issues of paper money consisting almost exclusively of bank notes made payable in gold coin.

This system is digging a grave for the finances of the world by a progressive and dangerous inflation, which has no natural limits, and which will bring world-wide disaster unless it is corrected in time.

When the demands of the world for cash exceeded the supply of gold, a substitute in the form of primary credit money was provided by issuing paper money payable in gold.

While the demands for gold in commerce were acute, this volume of paper was held within narrow limits and could only supply the local demands which surrounded the points of issue, and which were in reach of the gold into which the bank notes were convertible.

But the circulation of paper gradually extended as it acquired more of the functions of cash and as it did not call upon gold to redeem it.

The fact that paper was redeemable in gold coin, and that its supply was held in check by the amount of paper which was necessarily so redeemed, kept down the supply of paper and held the value of money to the standard price of gold.

The relation between the quantity of gold and the quantity of paper which must be redeemed in gold, is constantly changing by expanding the paper circulation.

Although the production of gold has greatly increased, yet the fact that paper is a better money than gold, when it need not be redeemed, operates all the time to drive gold out of circulation, to be replaced with paper money.

Practically all the gold of the world for currency purposes is now out of circulation, and is held as reserve to secure the redemption of paper that is seldom offered for gold.

The continued increase in the supply of gold does not get into coinage except as paper money, but accumulates as reserve to be used to redeem paper that never asks to be redeemed.

This inflation of primary paper develops its secondary money payable in gold presumably, but really payable in other paper which is payable in gold, and thus the world is experiencing the most dangerous expansion of money in its history, whereby gold is being used as a reserve to convert primary and secondary credits into cash and allow other credits to be cancelled with debt, and to inflate primary prices beyond all ability of wages to sustain them.

National bank notes in this country represent this secondary cash, and the volume is about equal in value to the gold held by the government, but which is also in circulation as gold certificates.

This system is bound to destroy itself if it continues, and it should give way to an automatic regulation whereby the volume of cash will be governed by the volume of primary and secondary credit redeemable in cash.

The supply of cash should be furnished by a volume of primary paper money superseding all other forms of money, and be made payable in government securities

on demand, and so regulated that the supply of cash can be increased by paying off government securities with new money, and the government issue its securities by taking up redundant supplies of money and cancelling them.

The general government would print new money to pay its bonds and have its bonds on the market all the time, and with the bonds take up redundant supplies of money, and when a balance was secured the outstanding bonds would always supply the market with the required volume of cash.

Baltimore, Md., February 15, 1912.

